

**Herald**

INTERNATIONAL

**Tribune**

PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST



The World's Daily Newspaper

R

London, Saturday-Sunday, July 11-12, 1998

No. 35,880

Air Cargo Suspended For a Week at Hong Kong

Compiled by Our Staff Photo Dispatchers

HONG KONG — Under increasing pressure over the worsening cargo situation at the new Hong Kong International Airport, the government announced Friday that an independent body would be set up to find out what went wrong and who was responsible.

The main freight handler at one of the world's busiest air cargo hubs suspended services for eight more days, delivering a new blow to the \$20 billion project.

Some passenger-plane departures were delayed more than three hours, according to flight information boards, which were still showing inaccurate information. And some passengers were waiting up to an hour to collect baggage.

Chief Secretary Anson Chan, Hong Kong's top civil servant, said the government would appoint two outside experts and an influential figure from

See CARGO, Page 4

Family of Nigerian Opposition Leader Awaits Autopsy



Some of the wives of Moshood Abiola mourning Friday at the family home in Lagos as they awaited an autopsy report by international experts. Meanwhile, the Nigerian leader pledged a democracy plan soon. Page 8.

IMF Feeling Heat To Bail Out Russia

Yeltsin Calls Western Leaders, Lobbying Hard for Support

By Paul Blustein
Washington Post Service

ment Friday.

WASHINGTON — As the Russian economy sinks deeper into crisis, pressure is mounting on the International Monetary Fund to save Moscow from a financial catastrophe that could spawn political chaos in the world's second-largest nuclear power.

President Boris Yeltsin lobbied Western leaders for support Friday, as a senior IMF official arrived in Moscow for talks with Russian officials on a multibillion-dollar loan to bail out the economy.

Mr. Yeltsin telephoned Chancellor Helmut Kohl, President Jacques Chirac and Prime Minister Tony Blair in an effort to secure international backing for the package, Russian officials said.

The Russian president also has sought the support of President Bill Clinton, who called for a quick resolution of negotiations with the IMF but stopped short of offering direct U.S. aid.

"It's time, in our view, for these negotiations to come to closure," Mike McCurry, the White House spokesman, said to Reuters.

Mr. McCurry said the two leaders spoke by telephone for 20 minutes, during which Mr. Clinton stressed to Mr. Yeltsin the importance of Russia's quickly carrying out economic and legal reforms to gain investor confidence in that country.

The geopolitical argument for making sure Russia stays afloat economically is powerful, top policymakers acknowledge. Although the Russian economy is not very big or important, the country's crisis poses a nightmare for Washington, which fears that a collapse in the ruble could topple Mr. Yeltsin's reform government and bring extremists to power in a country with thousands of nuclear weapons.

Anatoli Chubais, Mr. Yeltsin's chief debt negotiator, said Friday that a preliminary agreement with the IMF for the aid was now expected Saturday, according to news reports. But IMF officials have been playing it cool in response to earlier statements by Mr. Chubais that Russia expects to conclude an agreement shortly for an IMF-led loan of \$10 billion to \$15 billion. On Thursday he said he expected the agree-

See RUSSIA, Page 10

Low Birthrates Cause Alarm

Too Few Newborns in Europe to Renew Populations

By Michael Specter
New York Times Service

STOCKHOLM — Mia Hultoo is a true woman of the late 20th century. Soft-spoken, well-educated and thoughtful, she sings Renaissance music in a choral group, lives quietly with the man she loves and works like a demon seven days a week.

At 33, she is in full pursuit of an academic career. And despite the fact that she lives in Sweden — which provides more support for women who want families than most other countries — Miss Hultoo doesn't see how she can possibly make room in her life for babies. Someday maybe, but certainly not soon.

"There are times when I think perhaps I will be missing something important if I don't have a child," she said.

"But today women finally have so many chances to have the life they want," she added. "To travel and work and learn. It's exciting and demanding. I just find it hard to see where the children would fit in."

Miss Hultoo would never consider herself a radical, but she has become a cadre in one of the fundamental social revolutions of the century.

Driven largely by prosperity and freedom, millions of women throughout the developed world are having fewer children than ever before. They stay in school

longer, put more emphasis on work and marry later. As a result, birthrates in many countries are now in a rapid, sustained decline.

Never before — except in times of plague, war and deep economic depression — have birthrates fallen so low, for so long.

What was once regarded universally as a cherished goal — incredibly low birthrates — have now become a cause for alarm in the industrial world. With life expectancy rising at the same time that fertility drops, most developed countries may soon find themselves with lopsided societies that will be nearly impossible to sustain: a large number of elderly and not enough young people working to support them.

The change will affect every program — from health care and education to pension plans and military spending — that requires public funds.

There is no longer a single country in Europe where people are having enough children to replace themselves when they die. Italy recently became the first nation in history where there are more people over the age of 60 than there are under the age of 20. This year Germany, Greece and Spain will probably all cross the same divide.

In many ways, low population growth is won-

See BIRTHS, Page 10



No Boom In Babies

FERTILITY RATE IN 1995
The average number of children born to a woman in her lifetime

● 0.00-1.24	● 1.50-1.74	○ 2.00+
● 1.25-1.49	● 1.75-1.99	○ Not avail.

Source: Eurostat NYT

Blair Initiates Last-Ditch Talks To Calm Ulster

By James F. Clarity
New York Times Service

BELFAST — In a last-ditch move to end escalating violence by Protestants in this predominantly Protestant British province, Prime Minister Tony Blair said Friday that he had invited Roman Catholics and Protestants to negotiations on the volatile issue of an Orange Order patriotic parade through a Catholic area in Portadown, 25 miles (40 kilometers) southwest of Belfast.

In London, police foiled an attempted bomb attack on Friday evening, Agence France-Presse reported. Three men were arrested in possession of an explosive device. Scotland Yard's anti-terrorist branch announced. The three men were going to use the device "within minutes," said the head of the



Riot police manning a barrier Friday during a standoff with Orangemen in Portadown over the route of a parade through a Catholic area.

Czech Cabinet Delay

PRAGUE (AFP) — The Czech Republic will have to wait "several weeks" for the formation of a new minority government led by the center-left Social Democrats, a spokesman for President Vaclav Havel said Friday. The cabinet is expected to be led by Milos Zeman.

Earlier article, Page 10.

Newswatch Prices

Newswatch Prices			
Bahrain	1,000 BD	Malta	
Cyprus	— C 2.60	Nigeria	— 12,500 Naira
Denmark	14,000 DKR	Oman	— 1,250 OR
Finland	— 12,000 FM	Qatar	— 10,000 QR
Gibraltar	— £ 0.85	Iraq	— 1,000 I.D.
Great Britain	£ 0.90	Saudi Arabia	— 10 SR
Egypt	£ 5.50	S. Africa	R 12 + VAT
Jordan	— 1,250 JD	U.A.E.	— 10,000 Dh
Iraq	K. Sh. 160	U.S. M.	(Eur.) \$ 1.20
Kuwait	700 Dls.	Zimbabwe	— 2m\$40.00

The Dollar		
New York	Friday @ 4 P.M.	previous close
DM	1.8165	1.8287
Yen	141.07	141.07
FF	6.0623	6.128
Pound	1.633	1.6317
Dollars per pound.		

The Dow		
	Friday close	percent change
+15.95	8,105.74	+0.18%
	S & P 500	
+5.77	1,164.33	+0.50%
	Nasdaq	
+3.02	1,943.09	+0.18%

AGENDA		
Albright Urges Mideast Talks	Page 8	Opinion

service, John Grieve. He added: "This evening's arrests are the result of a prolonged investigation into dissident criminal Irish republican terrorist groups and a successful surveillance operation carried out by the Metropolitan Police and MI5." MI5 is Britain's internal security service.

Prime Minister Blair said he would send his chief of staff, Jonathan Powell, to start talks on Saturday between the Catholic residents of the Drumree neighborhood of Portadown and Prot-

See ULSTER, Page 10

Alternative to Hashimoto Looks Less Than Exciting

By Nicholas D. Kristof
New York Times Service

TOKYO — Prime Minister Ryutaro Hashimoto may be angering the rest of the world with his reluctance to tackle Japan's economic problems, but if he seems lackluster, it could get worse.

If a poor result in Sunday's parliamentary elections, a outcome that forces Mr. Hashimoto to resign, many analysts regard as possible but not probable, there could be some nostalgia for his rule.

The leading candidate to replace Mr. Hashimoto is Foreign Minister Keizo Obuchi, who is one of the few people who by comparison could make Mr. Hashimoto seem dynamic.

While the United States and many Asian countries are desperately hoping that a leader will emerge in Japan who will take charge of the government and begin tough steps to revive the economy, no one in Japan seems to see such a person in the wings, and Mr. Obuchi does not fit that description. Even in a country that over the last decade has specialized in faceless leaders, Mr. Obuchi has had a career that is forgettable.

She said that "there is a limited amount that the United States or anyone can do if the parties themselves do not talk with each other to resolve the remaining difficult issues."

"Obuchi has all the pizzazz of a cold pizza," said John Neuffer, a specialist in Japanese politics at the Mitsui Marine Research Institute in Tokyo.

"He wouldn't be calling the shots," Mr. Neuffer added of Mr. Obuchi as prime minister. "He'd simply be a puppet for the party elders."

The prospect raises some intriguing questions about the Japanese political system. One of the buzzwords in Japanese politics is *ridashippu* (from the English word "leadership") but the ruling party may move from a prime minister who has exhibited little of it to a cabinet minister who has demonstrated none.

The answer to the puzzle, according to Japanese politicians and analysts, is that in a virtual one-party state like Japan, the key to rising in politics is seniority and congeniality. And Mr. Obuchi, who has served in Parliament since 1963, is extremely senior and very congenial.

The possibility of Mr. Obuchi's moving into the prime minister's residence arises because a series of opinion polls in the last few days show that the ruling

See INDONESIA, Page 10

See CUP, Page 22

Reforms Unleash Habibie Foes

Push by Secessionist Forces Adds to Economic Pressures

By Michael Richardson
International Herald Tribune

JAKARTA — Emboldened by promises of political reform in Indonesia, groups demanding independence are intensifying their activities in East Timor, Irian Jaya and other remote parts of the country, creating new challenges for the government of President B.J. Habibie as it battles to prevent economic collapse.

While there is little risk at present of one of the world's largest island-nations breaking apart, foreign governments and aid agencies providing assistance to Indonesia are concerned that increasing unemployment and food shortages in outlying

areas will fan local grievances and secessionist influence, especially if the armed forces react in a heavy-handed way.

Some Western officials say privately they are worried that if demands for independence in various parts of Indonesia grow stronger, it could trigger a crackdown by the armed forces or even a military takeover of the government.

On a visit to Jakarta that ended Friday, Australia's foreign minister, Alexander Downer, said that he had emphasized in talks with Mr. Habibie and other Indonesian officials that it was very important for the military to exercise "a maximum

See JAPAN, Page 4

France and Britain Take Lead on Kosovo

The Associated Press

PARIS — France and Britain are preparing a draft UN Security Council resolution aimed at securing an immediate cease-fire in Serbian province of Kosovo. French and British officials said Friday.

The draft resolution would clearly indicate that additional measures would be taken if Serbian forces and ethnic Albanian rebels did not halt hostilities, according to a statement from the French Foreign Ministry spokesman, Yves Douriaux.

Further authorization from the Security Council would be needed, however, before any sanctions were enacted, the French statement said.

The resolution is intended to implement a declaration issued by the six-member Contact Group, which coordinates international policy on the Balkans, after their meeting Wednesday in Bonn. Its members are France, Britain, the United States, Germany, Italy and Russia.

"It's only at its preliminary stages at the moment," a British Foreign Office spokesman said in London, speaking on condition of anonymity.

"It will set in stone undertakings the Contact Group set out" for the Yugoslav president, Slobodan Milosevic, and that he agreed to last month in Moscow, the British spokesman said.

"It will call for protection of international monitors and for an immediate cease-fire."

In a communiqué, the Contact Group

countries said they would seek a Security Council resolution underlining the need for a cessation of hostilities "to permit a meaningful dialogue between the parties."

In his meeting with President Boris Yeltsin of Russia on June 16, Mr. Milosevic promised to resume talks with the Albanians in Kosovo.

At the Bonn meeting, the Contact Group warned militants of the Kosovo Liberation Army that they could face sanctions if they impeded new talks.

Hundreds of people have died this year in clashes between Serbian security forces and ethnic Albanian rebels, and thousands have fled the fighting.

Albanians, who made up 90 percent of the province's population, want greater autonomy for the province, which is in southern Serbia, the dominant of the two republics that make up Yugoslavia.

Meanwhile, at least two people died in border clashes Friday between Albanian arms smugglers and the Yugoslav Army, Serbs reported. Tensions built in a central village, with hundreds of armed Albanians dug in against an expected attack.

The deaths, reported by the pro-government Serbian Media Center, occurred near the border village of Vrbnica, about 75 kilometers (45 miles) southwest of Pristina.

Large quantities of arms and ammunition were confiscated after army troops were fired on and returned fire, the pro-government center said.

BRIEFLY

10 Arrested at NATO

BRUSSELS — NATO security agents arrested 10 anti-nuclear protesters Friday after they cut a hole in the fence surrounding the alliance's headquarters and attempted to find documents from NATO's Nuclear Planning Group.

The protesters, calling themselves citizen-inspectors, claimed that a ruling by the International Court of Justice two years ago said the use of nuclear weapons and the threat of their use was illegal. They were turned over to the Belgian police.

Asked about security at NATO headquarters, Secretary-General Javier Solana Madariaga laughed and said, "Ah, come on!" (AP)

Show Your Papers!

BONN — Border guards searching for illegal immigrants may check people's identity papers on any train and at any station or airport — even without any firm suspicion, under a law passed by Parliament's upper house Friday.

Previously, guards could check

someone's identity papers only if they had reason to suspect he or she entered Germany illegally, or if the person was still within 30 kilometers (20 miles) of the border. (AP)

EU vs. Belarus

BRUSSELS — The European Union is considering tightening visa restrictions to limit the movement of Belarusian officials, EU officials said Friday.

EU foreign ministers are expected to impose the restrictions when they meet Monday in Brussels in retaliation for orders from the Belarusian government that several nations' ambassadors vacate their residences in a diplomatic compound in Minsk, the capital of Belarus.

(AP)

Land-Mines Dispute

LONDON — Opposition parties accused the British government on Friday of water down its pledge to ban land mines, saying a proposed law was inconsistent with the Ottawa Convention that the government signed last year. (Reuters)



Azores Endure Aftershocks and Count Damage

The Associated Press

HORTA, AZORES — About 1,700 minor aftershocks rumbled through the Azores Islands overnight after a 5.8-magnitude earthquake killed eight people and left about 1,500 others homeless, officials said Friday.

The aftershocks caused no injuries or damage, they said.

Emergency services and local people began removing rubble and repairing infrastructure on Faial, the hardest-hit of the archipelago's nine volcanic islands, which are part of Portugal.

"We're cleaning up now," said Helena Vaz, spokeswoman for the Azores Civil Protection Service. "The homeless people are in army tents and we're getting back to normal."

The authorities said that the quake, which measured 5.8 on the Richter scale, had destroyed 500 houses on Faial. Damage was estimated at 12 billion escudos (\$64 million).

Eight people were killed in rural villages on the island's eastern coast, the area nearest to the epicenter, which was 15 kilometers (nine miles) away in the Atlantic.

Emergency aid flown in from the Portuguese mainland, 1,200 kilometers to the east, was being distributed to the island's 5,000 inhabitants.

Prime Minister Antonio Guterres of Portugal visited Faial on Thursday and said he had been "deeply moved" by the destruction and drought islanders.

The Azores have a population of about 250,000, most of whom make their living from agriculture and fishing.

Threat by Turkey

Turkey says it will deploy missiles of its own in northern Cyprus if the Greek Cypriot government goes ahead with its plan to deploy Russian ground-to-air missiles on the island. Agence France-Presse reported from Ankara.

"If they bring missiles to Cyprus, we will install some too," Mr. Yilmaz said in an interview with Turkish television.

"Our position is clear," Mr. Yilmaz said. "If the Greek Cypriots want to deploy these missiles, let them go ahead. We will have to take countermeasures for the protection of the Turkish Cypriots."

The Cyprus government in Nicosia declined to comment.

TRAVEL UPDATE

Spanish Airport Strike Threatened

MADRID (Reuters) — Disgruntled airport workers, who six weeks ago paralyzed Spanish airports with a work stoppage, said on Friday they would strike at the busiest time of the year if they get no progress on pay demands before then.

A representative of the biggest labor group, the General Workers Union, said notification of a three-day strike to begin on July 31 had been given to the Spanish airport authority, AENA.

"We don't understand their intransigence as the measures we are proposing would improve service for everybody," said Jose Alonso, a union representative.

The unions involved are seeking a pay increase of more than 3.5 percent after a three-year wage freeze. They also want more employees hired, fixed hours for shift workers and reclassification of workers according to the jobs they do.

The Finnish national carrier, Finnair, announced Friday that it will put portable heart defibrillators on its long-distance fleet by the end of the year. Finnair is the first European airline to include such devices in its aircraft. (AP)

Travelers suffered delays of up to five hours Friday at Athens airport because of air traffic control problems. Airport officials said they expected delays again Saturday. At least two domestic flights were canceled and dozens of international flights suffered delays.

USAirways canceled 200 flights last weekend because of pilot shortages, said Roy Freidlich, spokesman for the USAirways unit of the Air Line Pilots Association. He said that pilot schedules had become disjointed because of a lack of workers, and that pilots had been asked to work voluntary overtime. The airline attributed the cancellations to storms, suggesting that they had nothing to do with the furloughs of 280 pilots. USAirways has some 4,000 flights daily. (AP)

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WEATHER

Europe

Forecast for Sunday through Tuesday, as provided by AccuWeather.



The North Sea and the Baltic Sea will be cold with some sunshine Sunday and Monday with comfortable shamrocks, then warm and sunny Tuesday with scattered showers. (AP)

Asia

Sunny, dry and quite cool to hot across northwestern India and parts of Pakistan to Tuesday. (AP)

Wet and humid in Southeast Asia with the chance for showers. Scattered rain in India. (AP)

Scattered rain across northern Japan, but Tokyo will be very warm and humid with showers. (AP)

Wet and humid in southern Asia. (AP)

Heavy snow in the mountains of the Alps. (AP)

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Italy Gets Venice Flood-Barrier Plan

The Associated Press

ROME — The Italian government is considering a plan drawn up by a team of international experts to protect Venice from the recurrent floods that are slowly destroying its centuries-old monuments.

The plan, presented to the government Thursday, foresees the construction of a 20-meter-wide by 30-meter-deep

movable barrier (about 67 feet wide by 100 feet deep) on the outskirts of the Venice lagoon.

Normally sitting below the water surface, the structure would be lifted into place when the tide rises too high, blocking the water from entering the lagoon.

Last year, central Venice and scenic St. Mark's Square were flooded more than 80 times — a record for this century. The high waters inconvenience residents and tourists, who are forced to wear rubber boots to stay dry, as well as damage monuments and canals in the city.

This project is the right solution to save Venice from floods — such as imposing speed limits on boats and blocking large ones from entering the canals — have had little effect.

The government's Environmental Impact Assessment Committee now has 90 days to examine the plan before it is sent to the government for final approval.

Philippe Bourdeau of the European Union's environment agency led the panel that devised the plan.

Other initiatives to save Venice from floods — such as imposing speed limits on boats and blocking large ones from entering the canals — have had little effect.

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Around the World Forex Capital Around the Clock

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Pentagon Rethinks Missile Shield

By Philip Shonan
New York Times Service

WASHINGTON — The Defense Department is considering finding a competitor to Lockheed Martin Corp. as the prime contractor on the army's \$15 billion anti-missile system, a project that had been seen as the forerunner of a much larger program to shield the entire nation from missile attack.

The Pentagon said it had decided to consider a second contractor — and possibly, an entirely new design — after five consecutive test failures, the most recent in May, when an anti-missile missile failed to hit its target over the New Mexico desert.

"We are obviously considering this as one of our potential alternatives — restructuring the program," said Lieutenant General Lester Lyles of the air force, the director of the Pentagon's Ballistic Missile Defense Office.

"A second source, depending on when you do it on a program, is not necessarily a panacea," he said Thursday at a news conference, referring to an alternate contractor. "We're examining very closely the costs for bringing on a second source, the time it takes to bring on a second source, whether or not you ask the second source to do a Chinese copy — that is, build the same missile to print — or to have a competing design."

A decision to seek an alternate contractor or another design could delay the anti-missile system for years and would raise new doubts about the feasibility of so-called Star Wars technology to protect the United States from missile attack through the use of satellites, radar and anti-missile missiles. The Pentagon is committed to developing such a missile shield.

POLITICAL NOTES

Secret Talks Held On Tobacco Accord

NEW YORK — Negotiators for producers and state attorneys-general held secret talks in recent weeks to try to craft a new tobacco settlement proposal, said state officials and lawyers familiar with the discussions.

The talks, which follow the collapse last month of a \$516 billion tobacco bill in the Senate, apparently grew out of a court-ordered effort to mediate an upcoming smoking-related lawsuit brought by the state of Washington against the tobacco industry.

The negotiations expanded to include officials from other states with pending lawsuits, including New York, California, Colorado and North Carolina.

One lawyer, who represents numerous states in actions brought against cigarette producers, said that negotiations between the industry and state officials had broken off Wednesday night over monetary and other issues. Another person close to the tobacco

industry confirmed that the talks had broken off over money.

But two state officials said the talks were still alive and that details about them would be discussed at a meeting of state attorneys general expected to start Monday outside Durango, Colorado. (NYT)

Republicans Seek Credible Health Bill

WASHINGTON — Republican strategists have conceded that their party needed to pass a credible bill on managed care before the November elections or risk political punishment.

"It's very important for Republicans not to come up with some token effort, because we are perceived as the party that doesn't care about the issue," said Rick Reed, a Republican media consultant who has worked on the managed-care issue. "This issue can only intensify at this point."

This is a pivotal time in Congress, as Democrats in the Senate have begun to carry out their threat to attack their

managed-care bill to essential spending legislation.

On Monday, soon after Democrats tried to add the proposal to a bill to provide money for the Departments of Veterans Affairs and Housing and Urban Development for the next year, Senator Trent Lott of Mississippi, the majority leader, pulled the bill from the Senate floor rather than consider the amendment.

Democrats, led by Senator Tom Daschle of South Dakota, the minority leader, vowed to repeat the tactic on other spending bills, threatening to tie up the Senate, which has 45 business days left to complete legislative business before adjourning for the elections this fall. (NYT)

Quote/Unquote

President Bill Clinton praising firefighters as "real American heroes" who beat back flames from Florida's wildfires: "You showed people what the meaning of community is and why we really do depend on each other."

Away From Politics

• The Roman Catholic diocese of Dallas has agreed to pay \$23.4 million to nine former altar boys sexually abused by a priest. The agreement follows a deal to pay \$7.5 million to three other boys abused by the same priest. The total settlement of \$30.9 million was believed to be the largest ever involving the Catholic Church. (Reuters)

• Their punishment was in line with state sentencing guidelines. They could have received as much as 10 years, Delaware does not have parole, but does reduce prison sentences for good behavior. Attorneys said Ms. Grossberg could be released after 18 months; Mr. Peterson after 16 months.

The sentencing brought to a close a case that has drawn national headlines since the body of the boy was found wrapped in a trash bag behind the Comfort Inn in Newark, Delaware, on a freezing morning in November 1996.

Ms. Grossberg and Mr. Peterson grew up in an affluent section of suburban Bergen County, across the Hudson River from New York City. They attended Ramapo High School, where he was a soccer team co-captain and she aspired to a career as an artist.

Their prom photo graced their high school yearbook, and their romance continued when they went to separate colleges. (AP)

Couple That Left Baby to Die In Trash Get Light Jail Terms

By Peter S. Goodman
Washington Post Service

WILMINGTON, Delaware — Two New Jersey students from comfortable suburban backgrounds have been sentenced to prison for manslaughter by a judge who castigated them for selfishness after their newborn son's body was found discarded in a garbage bin behind the motel where he was born.

"Many young mothers have faced the challenges you had with less support than was available to you," the Superior Court judge, Henry duPont Ridgely, told Amy Grossberg, who was 18 when she gave birth to the child. "Your selfishness caused the death of a child whose life was of no less value than any person in this courtroom."

On Thursday, Judge Ridgely sentenced Ms. Grossberg, who turned 20 Friday, to eight years in prison but then suspended all but two and a half years and ordered her to complete 300 hours of community service. He handed down a similar sentence to her former boyfriend, Brian Peterson, 20, but said his prison time will be six months shorter, citing the fact that he cooperated with prosecutors after agreeing to plead guilty to manslaughter charges in March. Ms. Grossberg later agreed to plead guilty to the same charge. Wilmington prosecutors originally charged both with first-degree murder, a capital offense.

Their punishment was in line with state sentencing guidelines. They could have received as much as 10 years, Delaware does not have parole, but does reduce prison sentences for good behavior. Attorneys said Ms. Grossberg could be released after 18 months; Mr. Peterson after 16 months.

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Their prom photo graced their high school yearbook, and their romance continued when they went to separate colleges. (AP)

TO COIN A PHRASE By Henry Hook



© New York Times/Edited by Will Shortz

Solution to Puzzle of July 4-5

1. Quip, part 1, "With a View"	2. Gull	3. Ass Minor region	4. Quip, part 3	5. Like a bushman	6. Without	7. Gone by	8. Quip, part 4	9. Tolkien tree-man
10. The Sage of Concord	11. Easter emblem	12. Toyemaker, maybe	13. Largo, vis-a-vis presto	14. Adirondack lake	15. Big pistol manufacturer	16. 1985 newsmaking ship Achille Enrica	17. Roots' Emmy winter	18. Follows
19. Hawaiian winter wind	20. She danced with John in "Pulp Fiction"	21. Women in Charlie's life	22. Tykes	23. The other team in "Damn Yankees"	24. Cézanne's "Boy in ___ Vest"	25. Madness?	26. Colorado resort	27. House's halter
28. Cordwood measure	29. Publisher Adolf	30. Tolerate	31. "Ops"	32. End, 1948-52 Czech track gold medalist	33. Didi some scouting	34. Import erroneously	35. They're on top of things	36. "The Drew Carey Show" woman
37. Estrelyat	38. Partake at 30-Down	39. As yet unscheduled: Abb'r.	40. Dense clouds	41. Feted, to a hilbilly	42. Free-for-all	43. Duck	44. Nevertheless	45. Wedding vow infinitive
46. Bennett song start	47. Vladivostok villa	48. Nouvelle Calédonie, e.g.	49. Chacun — gout	50. Mix up	51. Writer Quindlen	52. Almost boil	53. Sans pass	54. Vladivostok villa beginning 1951
55. Name in Chinese history	56. Multipurpose conjunction	57. Makeup lesson?	58. The Screwswape Letters' writer	59. Name in Chinese history	60. Intimidated	61. Trent of the Senate	62. Lowland	63. One with a lot of paperwork
64. Bottom fine	65. Preface	66. Jets or Sharks	67. Thrice daily, in pharm.	68. Preface	69. Jets or Sharks	70. Makeup lesson?	71. Gen. Bradley	72. Flees
73. Modern-day evidence	74. Flees	75. Modern-day evidence	76. Clear the tables	77. Mix up	78. Writer Quindlen	79. Ukraine's capital	80. Almost boil	81. Sans pass
82. Toyemaker, maybe	83. Artisan, Jones	84. "Political" host	85. Vladivostok villa	86. "Chacun — gout"	87. Marilyn Monroe's birthday	88. Almost boil	89. Synthetic fiber	90. Stem's pal
89. Enjoyed	90. Artisan, Jones	91. End of the quip	92. Artisan, Jones	93. "Chacun — gout"	94. Jet's or Sharks	95. Stem's pal	96. Synthetic fiber	97. Stem's pal
98. The Sage of Concord	99. Artisan, Jones	100. More blackened	101. Lots and lots	102. Jet's or Sharks	103. Stem's pal	104. Stem's pal	105. Stem's pal	106. Stem's pal
107. Toyemaker, maybe	108. Artisan, Jones	109. More blackened	110. Lots and lots	111. Stem's pal	112. Jet's or Sharks	113. Stem's pal	114. Stem's pal	115. Stem's pal
116. Largo, vis-a-vis presto	117. Bean town?	118. More blackened	119. Animation unit	120. Take out of context?	121. Secretary, for one	122. Lev Bronstein's alias	123. Fire	124. Tired to beat the bug
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Senate Reduces Nuclear Sanctions

By Thomas W. Lippman
Washington Post Service

WASHINGTON — The Senate has voted, 98 to 0, to exempt farm credit programs from the economic sanctions imposed on India and Pakistan following their nuclear weapons tests in May, but only after the bill was stripped of provisions that would have authorized President Bill Clinton to waive the other sanctions as well.

What began as an effort by some senators to give the administration flexibility as it tries to restrain the South Asian arms race was reduced to little more than a farm bill when Senator John Glenn, Democrat of Ohio, threatened a filibuster if the additional waiver provisions were kept in.

Pakistan is the third-largest overseas buyer of U.S. wheat. The measure approved Thursday and sent to the House would exempt from the sanctions sales backed by the Agriculture Department's General Sales Manager program. Without that relief, said Senator Pat Roberts, a Kansas Republican, the sanctions "would effectively lock out

Wheat Sales Would Be Exempted

American food producers from a market of 1.1 billion consumers," a reference to the combined populations of India and Pakistan.

But the food exemption measure left in place the array of sanctions imposed on India and Pakistan under nuclear anti-proliferation laws, including one sponsored by Mr. Glenn in 1994 that required Mr. Clinton to cut off U.S. aid to the South Asian rivals and oppose financing by international lending institutions.

Several senators said that the law limits the administration's leverage as it tries to persuade India and Pakistan to forswear further tests and begin talks on security issues.

The sanctions are "unduly hampering the president's ability to conduct U.S. foreign policy," said Senator Joseph Biden, the Delaware Democrat. "I hope the Senate Task Force on Sanctions, which I chair with Senator McConnell, will develop proposals to give the president critically needed flexibility to pursue America's national interests more effectively."

Senator Mitch McConnell, Republican of Kentucky, said he voted for the farm credit exemption because "the sanctions are supposed to squeeze the targeted country, not the American producer."

"We should not sacrifice our farmers in an effort to put the nuclear genie back in the bottle," he said.

Senator Sam Brownback, also a Kansas Republican, who is chairman of the Foreign Relations subcommittee on the Near East and South Asia, said he was planning a hearing Monday to consider softening the remaining sanctions.

■ U.S. and India Confer

Envoys from India and the United States on Friday ended two days of talks in Frankfurt on nuclear arms and other issues and agreed to meet again in New Delhi on July 20 and 21, Press Trust of India said, according to a report by Reuters from the Indian capital.

"Mr. Jaswant Singh, deputy chairman Planning Commission of India and Mr. Strobe Talbot, U.S. deputy

secretary of state, met in Frankfurt on July 9 and 10," the press agency said, quoting from a statement issued in Frankfurt after the meeting. "They continued discussions which began in Washington on June 13 on matters related to disarmament and nonproliferation as well as regional and international development."

"Both sides have agreed that these very useful and constructive contacts will continue," the statement said.

"In that context, they also discussed the agenda for Mr. Talbot's forthcoming visit to Delhi on July 20-21, 1998."

The United States cut off aid and loans to India as a punishment for its decision to conduct nuclear tests in May and called on New Delhi to sign the Comprehensive Test Ban Treaty unconditionally.

Prime Minister Atal Behari Vajpayee said Friday that New Delhi would not bow to pressure to sign the treaty but was ready for talks about it. He said India was prepared to join negotiations on a Fissile Material Cut-off Treaty and make its self-imposed moratorium on further tests a binding obligation.



Associated Press
Akbar Tanjung, President B.J. Habibie's candidate to lead Indonesia's ruling Golkar party, appearing at a three-day party meeting in Jakarta.

CARGO: Air Shipments Suspended Another Week at Hong Kong

Continued from Page 1

Hong Kong "to establish what went wrong and where the responsibility lies." The names of the commission members will be announced later.

Problems started with the opening Monday of the territory's new airport, located on an outlying island about 30 kilometers (22 miles) west of the city center.

While passenger services have improved slowly but steadily after a rocky start, it has become increasingly clear that the cargo operation was not ready for the move from the old Kai Tak Airport.

After shifting some operations back to Kai Tak and placing a temporary suspension on some shipments, the main cargo handler, Hong Kong Air Cargo Terminals, took more drastic action overnight.

The government said the handler had informed officials it was halting nearly all cargo shipments through Hong Kong for eight days, except for a few items, including in-bound perishables, news-papers and magazines, and life-saving materials.

Anthony Charter, the main cargo handler's managing director, said the

suspension was needed to solve software and mechanical problems.

He told reporters later Friday that the halt in service would cost the firm 5 million Hong Kong dollars (\$641,000) a day. The company handles 5,000 tons of freight daily, worth 1.7 billion Hong Kong dollars.

James Tien, chairman of Hong Kong's General Chamber of Commerce, told Hong Kong radio that businesses appreciated that the cargo handler had given a firm reopening date. He also used the pressure on Mr. Chan and Hong Kong's chief executive, Tung Chee-hwa. The airport problems "prompted investors around the world to question the government's ability to administer Hong Kong," Mr. Tien said.

He said he was surprised that neither Mr. Tung nor Mr. Chan had been to the airport to show their concern. Mr. Chan was there when it opened Monday.

Hong Kong legislators also assailed Airport Authority officials, especially the chief executive, Henry Townsend, on Thursday, saying the airport was a disgrace and Hong Kong had been embarrassed internationally.

The lawmakers, flexing their muscles for the first time since elections in May,

called on Mr. Townsend to resign. On Friday, they said they, too, would set up an inquiry to investigate the issue.

On Friday morning, only one of 12 seafood stalls was open in one of the markets in the tourist and shopping district of Tsimshatsui, and that was only selling local fish.

Other stalls were hosed clean, their walk-in refrigerators locked, garbage removed, and lights switched off. Where some of Hong Kong's top chefs and discriminating housewives shopped for fresh Norwegian salmon, Japanese tuna, and Australian oysters, less than a handful of buyers were choosing only among the local fish.

Hong Kong is one of the busiest air cargo centers in the world, and the Tsimshatsui market one of the more impressive wholesalers in the territory.

The Hong Kong Standard, a newspaper, estimated the cargo suspension would cost the territory at least \$23 billion Hong Kong dollars.

The government said it was "gravely concerned" that the halt was necessary. "This would clearly disrupt trade and impact adversely on our economic performance in the short term," it said.

(AP, Reuters)

Top Indonesian Party Moves Toward Democratic Change

Associated Press

JAKARTA — Support for democratic change intensified within the ranks of Indonesia's biggest political organization Friday as a growing number of its officials said they would back an ally of President B.J. Habibie as the new party chief.

Other party representatives were undecided or have named other choices. But support for Mr. Akbar could grow following a strong call for reform made by Mr. Habibie in a speech when the congress opened on Thursday.

Mr. Habibie said it must "take proactive steps toward national reform" and "reform itself."

The party must redefine its role and be "more responsive to the people's interests and their aspirations," said Mr. Habibie, who came to power in May after a wave of riots and protests forced Mr. Suharto to quit, ending 32 years of authoritarian rule.

picked by supporters of Mr. Suharto.

Analysts have speculated that Mr. Suharto's followers, many of them retired generals, want to impede change within Golkar and slow down political reform to protect the positions they got during the Suharto era.

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BRIEFLY Taiwan Resolution Is Adopted, 92 to 0

WASHINGTON — A resolution intended to repudiate President Clinton's statements on Taiwan was adopted, 92 to 0, by the Senate on Friday. Democrats insisted that it merely restated a policy embraced by the administration.

The resolution by the Senate majority leader, Trent Lott, Republican of Mississippi, was approved without debate. Mr. Lott said earlier it was needed to "repair the damage" caused by Mr. Clinton's remarks in Shanghai about reunification of Taiwan with the Chinese mainland.

The resolution expresses an expectation that "the future of Taiwan will be determined by peaceful means" and repeats a U.S. pledge to help Taiwan "maintain a sufficient self-defense capability." (AP)

UN Halts Flights At Kabul Airport

ISLAMABAD, Pakistan — The United Nations said Friday it had suspended flights in and out of the Afghan capital, Kabul, because rocket attacks by the northern opposition alliance had made the city's airport unsafe.

A UN statement issued in Islamabad said the decision had been prompted by two rocket strikes on an airport while UN planes were on the ground there, the first on June 30 and the second Saturday.

"Both rockets landed approximately 500 meters from UN planes, passengers, and pilots," the statement said. (Reuters)

If Needed in Quake, Japan Can Tap Sun

TOKYO — The Japanese government will spend \$30 million this year on the installation of solar- and wind-driven generators to serve as a backup in case of power outages from major earthquakes like the one that devastated Kobe in 1995.

The generators are being installed in public parks and schools, Hajime Wakita, who heads the project for the Ministry of International Trade and Industry, said Thursday.

The generators have been set up at a rate of several dozen per year since the Kobe quake, which killed 6,300 people and left hundreds of thousands without electricity for days or weeks. (AP)

JAPAN: A Look at Alternatives

Continued from Page 1

One reason why many people expect Mr. Hashimoto to hold on to his job is that there is no strong rival.

"How do you take care of the situation after him?" asked Kiichi Miyazawa, a former prime minister, in an interview between campaign trips. "Without knowing that, they can't get rid of him."

"If Hashimoto really bungled the whole thing, then what?" Mr. Miyazawa added. "Who can succeed Hashimoto under these circumstances? I don't know."

But even if Mr. Hashimoto were forced to resign, the Liberal Democrats would remain firmly in charge and no one expects much difference in Japan's policies.

Mr. Obuchi, 61, inherited a seat in Parliament from his father in 1963 and has been there since, working his way up the ladder of leadership positions. A gentle, low-key figure, he has often played the role of a mediator and he publicly supports Mr. Hashimoto for now.

"I've been saying that Hashimoto should be prime minister for five years or so, until the year 2000," Mr. Obuchi said in a recent speech. "It's my turn to support him now. Then the next time, he might support me."

The rise of a nice but ineffectual politician like Mr. Obuchi to a post like foreign minister is not unusual in Japan, and the weakness of the country's cabinet ministers has added to the frictions this year between Tokyo and Washington and other capitals. The two key players in international relations have been Mr. Obuchi and Hiroyuki Matsunaga, the finance minister, neither of whom speaks English or claims to know much about his field.

Mr. Matsunaga has with disarming frankness explained to Americans that he does not really know anything much about finance because he is a former prosecutor.

Facing The Truth

Christians and Jews of America must reach for the courage of Jesus and Moses in order to diffuse the spell of mutual distrust that continues to embroil all of the Children of Abraham.

Their frequently misplaced righteousness and one-sided sense of moral culpability perpetuate the painful plight of every innocent victim in the Holy Land.

America's Christian and Jewish leaders should set aside their concern for political correctness and relinquish the evasive tactics of the past. Unless they take hold of the fast-deteriorating situation in the Middle-East, Israel's self-inflicted isolation and escalating abrasiveness will lead to further suffering and vindictive bloodshed in what was once the land of milk and honey.



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EDITORIALS/OPIION

Herald Tribune

PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST

Delay Cambodia's Vote

It is not particularly surprising that as the July 26 election day approaches in Cambodia, the campaign is dominated by the dictator, Hun Sen.

The party runs the local and national election commissions. His image and propaganda monopolize the media except for a five-minute daily digest permitted each opposition group. His supporters menace opposition activists, especially in the countryside, and are suspected of political killings.

Yet the outside world is pretending that an acceptable fair election can be held in this climate of intimidation.

All the participants have their own reasons for maintaining the charade.

Mr. Hun Sen wants approval from the international community. After he staged a coup a year ago against his co-leader, Prince Norodom Ranariddh, the world cut off the foreign aid that forms half of Cambodia's budget. The United Nations says that Cambodia's UN seat still belongs to Prince Ranariddh. Winning an election would restore these and other international benefits.

The 39-party opposition has decided not to boycott the election, in part due to pressure to participate from the

European Union, the Association of South East Asian Nations and other international groups.

The EU and Japan have largely financed the registration process and campaign infrastructure. The United Nations has sunk nearly \$3 billion into Cambodia in the last few years.

Many diplomats say that Mr. Hun Sen is a reality to be recognized, and one they prefer to his main adversary, the hapless Prince Ranariddh. The Clinton administration, which has wisely declined to give the Mr. Hun Sen government any election money, still joins the rest of the diplomatic world in whitewashing the process.

Cambodia would be best served by postponing its elections a few months, until Mr. Hun Sen can be pressured into permitting a fair campaign environment. But if the international community is determined to go ahead, it must stop apologizing for a dictator and describe conditions in Cambodia honestly.

In their rush to normalize relations, diplomats are becoming the dupes of a man who has shown he is determined to retain power at all costs.

—THE NEW YORK TIMES.

Southern Hatred Rising

Senator Trent Lott's recent condemnation of homosexuality and a variety of anti-gay initiatives in Southern communities point up an important trend in American politics, and a threatening one for advocates of inclusive democracy.

Curiously, this more restrictive attitude toward social freedom is linked to a newly expansive exercise of religious freedom. Starting about 20 years ago, evangelical Christians began shedding their traditional aversion to political activism. In the South, especially, they have flooded into the electoral process, setting mainly in the Republican Party.

In doing it, they have charged and changed American politics as has no other force since the civil rights revolution. They have transformed the Republicans, bringing to the party a potent bloc vote, boundless energy and an unwillingness to compromise on certain domestic social issues.

Suddenly, a party that had been centered on economic issues and anti-communism, and that first began to court the Southern vote in the days of segregation, found that its best new troops had concerns other than race; prayer in the schools, abortion and opposition to gay rights. Prayer and abortion got more attention in national campaigns, but the anti-gay theme was there from the beginning.

In fact, the crusade by Anita Bryant, a devout Southern Baptist, against a gay rights ordinance in Miami in 1977 was an early rising of what came to be called the religious right.

The fundamentalists won that contest, reversing the ordinance by referendum, and the two movements — evangelical Christians and gay rights — have been in collision ever since. For the Reverend Jerry Falwell and Pat Robertson, who first brought evangelicals back to politics, and for James Dobson, their newest spokesman, Bible values are absolute. If homo-

—THE NEW YORK TIMES.

Unhelpful Expansionism

The deterioration of the Middle East peace process is provoking Palestinians and Israelis alike to unilateral gestures that threaten the bare, lingering chances of resuming the talks. A presumption of good-faith negotiations becomes more difficult, though no less urgent practically by the day.

Last month, the Israeli government took a preliminary step on its own toward expanding the boundaries of Jerusalem by roughly half, pushing the lines not only westward but pre-1967 Israel but eastward and northward to envelop Jewish settlers in the West Bank. The step would leave Israel in an improved position to dissect the territory of a prospective Palestinian homeland. It would have the further effect of strengthening a heavily Jewish demographic weight (now 70 percent) in post-1967 Greater Jerusalem — a salient consideration whether or not final-status negotiations on Jerusalem ever begin.

Palestinians protested that Israel was acting unilaterally to preempt negotiations. An internal administrative matter, Prime Minister Benjamin Netanyahu replied.

—THE WASHINGTON POST.

Herald Tribune

PUBLISHED WITH THE NEW YORK TIMES AND THE WASHINGTON POST

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International Herald Tribune, 181 Avenue Charles-de-Gaulle, 92521 Neuilly-sur-Seine, France. Tel: (1) 4143300. Fax: Subscriptions: (1) 41439210. Advertising: (1) 41439212. News: (1) 41439338. Internet address: <http://www.iht.com> E-Mail: iht@iht.com

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A Half-Century of Spendthrift Nuclear Investment

By Peter Passell

NEW YORK — In September 1951, Senator Brien McMahon laid out the argument for investing heavily in nuclear weapons. "The cost of military firepower based on atomic bombs is hundreds of times cheaper, dollar for dollar, than conventional explosives," he explained.

Nearly a half-century later, scholars at the Brookings Institution have released the first thorough assessment of the cost of nuclear weapons. "Atomic Audit" estimates that \$5.5 trillion in 1996 dollars has been spent by Washington on building, delivering and defending against The Bomb, and the meter is still ticking at the rate of \$35 billion a year.

Just how much money is \$5.5 trillion? It's more than has been spent on Medicare and veterans' benefits combined, though \$2.3 trillion less than the total outlays on Social Security since 1940. Or, if you prefer the fanciful, \$5.5 trillion stacked tightly in bricks made of \$1 bills would be enough to build a wall 8.7 feet high around the equator.

In the icy logic of economics, the benefits may still have exceeded the cost. But the very idea that nukes were initially embraced on such simplistic financial grounds is chilling testament to the shallowness of military economics.

Mr. McMahon, then the chairman of the Joint Congressional Committee on

Atomic Energy, was right that a one-megaton nuclear weapon cost less than conventional bombs containing 2 billion pounds of TNT. But in giving short shrift to the expense of delivering the nukes, he missed the forest for the trees of saplings.

The Brookings study, directed by Stephen Schwartz, estimates that building the weapons did indeed cost just \$409 billion in today's dollars, 2 percent of defense spending from 1940 through 1996. But the delivery systems — aircraft, missiles and related equipment — added \$3.2 trillion. Targeting nuclear weapons and systems to control their use absorbed \$831 billion. Defenses against nuclear attack have swallowed \$397 billion. (The largely future) cost of managing nuclear waste and dismantling obsolete weapons is projected at some \$400 billion.

What began as a plan to substitute bargain technology for conventional forces took on a life of its own. First with the frantic military buildup during the Korean War. Then with the "missile gap" that became an issue in the 1960 presidential election and morphed into a race with the Soviet Union for superior delivery systems. Still later, the Reagan

administration explicitly used military spending as a strategy for bankrupting the Evil Empire.

The Pentagon could calculate how many bombs would be needed to destroy Soviet rocket forces to turn Moscow into a parking lot. But as long as the goal was something other than military victory, nuclear sufficiency was a subjective concept. "The closest to one man who would know what the minimum deterrent would be is Khrushchev," General Thomas Powers said in 1980. "And frankly I don't think he knows from one week to another."

Not surprisingly, though, everyone seemed to have an opinion. President Lyndon B. Johnson's Bureau of the Budget, preoccupied with financing the Great Society in 1964, concluded that a force of more than 450 Minuteman missiles was a waste of money. Across the Potomac, the military bureaucracy reckoned the right number was 10,000. Defense Secretary Robert McNamara settled for an even 1,000 missiles.

With the invention of underwater-launched missiles, the navy thought a few dozen Polaris subs would deter the Soviet Union. But the air force thought otherwise, and Congress decided that a "triad" of sea- and land-based missiles along with manned bombers was needed to keep the Russians in their trenches.

Defenders of the nuclear establishment point out that, quibbling aside, the American arsenal succeeded in deterring a catastrophic war. But in Mr. Schwartz's opinion, this is an inadequate rationalization.

For one thing, he says, conventional forces backed by a small nuclear force would have cost far less and might have been equally effective. For another, the failure to contain either the size of the arsenal or the uncertainties associated with technological change made conflict more likely.

The chances of accidental war, for example, were presumably greater with tens of thousands of delivery systems (rather than, say, hundreds). The adoption of hair-trigger response protocols in reaction to the huge numbers of offensive missiles surely increased risks. And the invention of compact warheads that could fit six to a missile made the verification of negotiated arms limits almost impossible.

The New York Times.

Britain, India and Pakistan Could Start a Disarmament Club

By Rameesh Thakur and Ralph A. Cossa

TOKYO — The recent tests by India and Pakistan have raised the specter of nuclear warfare that many thought had ended with the Cold War. They also dashed hopes of progress toward universal disarmament. Global strategic realities have been plain to see.

Mr. Lott, the Senate majority leader, said last month that homosexuals are sinners. In Greenville, South Carolina, the pastor of the Choice Hills Baptist Church went him one better. They are "sinners in the nostrils of God," the Reverend Stan Craig declared.

As Kevin Sack reported at length in The New York Times, that kind of sentiment has become the fashion among Republican politicians in several South Carolina towns. "The time has come to take a stand," a local school board chairman who was running for state superintendent of education proclaimed. He was talking about banning the Indigo Girls from singing at a high school because of complaints that they were lesbians. He got the Republican nomination.

The new Republican mayor of Myrtle Beach won office by campaigning to stop the opening of the city's first gay bar. The bar opened anyway.

But near Lancaster, South Carolina, a lesbian named Regan Wolf was twice beaten unconscious and tied spread-eagled on her porch. "Jesus weren't born for you, faggot," a spray-painted message said.

Americans history is replete with examples of the connection between the politics of bias and violence. Republican leaders ought to take stock of what is happening in their party leaders' press conferences and in its new areas of grassroots primacy.

The party of Lincoln, which freed the slaves so long ago, should not be sowing the seeds of a new baton on Southern ground.

—THE NEW YORK TIMES.

By Jim Hoagland

power and jailed him four years ago, the Nigerian collapsed and died shortly after a hospital.

Fantastic, fatal coincidence? Or transparent plot to do in a troublesome politician who may have been balking at the deal the Americans were underwriting? If you lived in a country split by civil war, cruel dictatorship, and intense social and ethnic tensions for three decades, which would you be more likely to believe?

Mr. Abiola's family opted for conspiracy theory. The man who should have become Nigeria's democratically elected president in 1993 had either been poisoned or weakened by criminal neglect while in jail, they said.

Others voiced suspicion that

the pressure put on him to renounce his presidential mandate had been deadly in itself. The government's assertion that Mr. Abiola died from cardiac arrest was challenged and further examinations demanded.

No one pointed an accusing finger at Mr. Pickering, a former U.S. ambassador to Nigeria and a career foreign service officer known for his integrity. But his presence at the scene, and the earlier soft handling of the Nigerian dictatorship by the Clinton administration, make the United States an easy target for blame and suspicion in this case.

This is the Catch-22 of international diplomacy: Doing good deeds frequently means dealing with the devil and splitting crucial differences. Mr. Abiola's death illustrates the perils of being caught in mid-deal, by fate and public scrutiny.

The UN secretary-general, Kofi Annan — who brokered Saddam Hussein out of military danger in February and began burnishing his credentials for this year's Nobel Prize — had worked out the deal with the Nigerian military. Mr. Annan said that Mr. Abiola had promised him to give up his mandate.

Some raise the pertinent question of why Mr. Annan and Washington had aligned themselves with the junta's demand that Mr. Abiola renounce his mandate before his release as part of the deal. "We should have insisted on his unconditional release," said Walter Carrington, a recent U.S. ambassador to Nigeria, who pointed out that Mr. Abiola was being "forced to make agreements under duress."

The U.S. government must speak and act clearly on the issue of democracy. It needs to dispel suspicions that it was in any fashion part of an unholy deal with a regime guilty of great evil.

Dealing with the devil may be an occupational hazard for diplomats and the politicians they serve. But neither does this practice seem to get unpunished.

The Washington Post.

Clinton Did Lasting Harm in China

By Charles Krauthammer

WASHINGTON — President Bill Clinton's trip to China altered relations in Asia in ways that America will long regret.

Or transparent plot to do in a troublesome politician who may have been balking at the deal the Americans were underwriting? If you lived in a country split by civil war, cruel dictatorship, and intense social and ethnic tensions for three decades, which would you be more likely to believe?

Mr. Clinton genuinely seems to believe that it was a success. In his universe, where talk and personal contact are everything, his saying a few words and making many contacts launch a new era of Chinese-American relations.

His aides point proudly to his criticism of the Tiananmen massacre in a live news conference with President Jiang Zemin. But Mr. Clinton's criticism was tepid, defensive and ripe with moral relativism.

He said: You think Tiananmen was justified. We think it was wrong. We differ. And what impact this feeble statement might have had was undone by his description of Tiananmen as a "tragic loss of life," as if what happened there was a bus accident.

It was further undermined by Mr. Clinton's repeated calls throughout his trip for a "stable, open, prosperous China." Everyone in China knows what "stable" means. Stability is the regime's code for avoiding the dangers of democracy. It is the justification for dictatorship.

Of course, even strong words on human rights by an American president are hardly going to turn China's Leninist

neighbors demands some demonstration of firmness on the part of the "indispensable nation" (Madeleine Albright's favorite phrase) on which world security rests.

Yet Mr. Clinton caved completely on Taiwan, parroting Beijing's uncompromising rejection of Taiwan's existence as a separate political entity. He wobbled on conditions for Chinese entry into the World Trade Organization. And he offered not a cross word on Chinese arms sales.

Instead, he heralded "our joint commitment not to provide assistance to ballistic missile programs in South Asia" — this after the Chinese had given Pakistan its nuclear missile force. All this as part of the new U.S.-China "strategic partnership."

This left America's real Asian partners — democracies like Japan, South Korea and Taiwan — gasping. They have no illusions that personal diplomacy of the fuzzy Clinton sort will alter the hard geopolitical fact that China remains a potential adversary.

Rather than reassuring the peoples surrounding China that America is prepared to counterbalance the rising power of the 21st century, Mr. Clinton signaled that his bungling for the Chinese market and desire for pleasing photo-ops will dominate American foreign policy in the region.

China's challenge to its

draft a new law. The Vietnamese sky-scraper will be an apartment and office building all in one. It is planned to give accommodation for 5,000 persons. With 30,000 persons in Vietnam on the hunt for flats, it is thought that sky-scrapers are the only solution for the housing shortage.

The U.S. government must speak and act clearly on the issue of democracy. It needs to dispel

suspicions that it was in any fashion part of an unholy deal with a regime guilty of great evil.

Dealing with the devil may be an occupational hazard for diplomats and the politicians they serve. But neither does this practice seem to get unpunished.

The Washington Post.

IN OUR PAGES: 100, 75 AND 50 YEARS AGO

1898: Electric Trains

Nigerian Ruler Pledges Democracy Plan Soon

Disturbances Break Out in the Southwest

Reuters

KADUNA, Nigeria — Nigeria's military ruler, General Abdulsalam Abubakar, restated Friday his commitment to restore democracy and said he would soon address the nation on a specific plan.

General Abubakar told graduating officers at the Jaji Command and Staff College in this northern city that the challenges the Nigerian armed forces faced could only be met in a stable political environment.

"I shall address the nation very soon on what we have determined to be the best way forward for our fatherland," the general said.

"We are committed to taking Nigeria back to its rightful place among the community of nations, and above all we are committed to taking our military back to its constitutional and professional role of defending the territorial integrity and sovereignty of the nation," he said.

Up to 60 people reportedly have been killed in riots following the death in detention of Moshood Abiola, who is assumed to have been the winner of 1993 elections that were annulled by the military government.

"The ideals of democratic governance, respect for fundamental human rights as well as the peace, stability and progress which we all aspire to can only be achieved with greater tolerance, understanding, cooperation and mutual respect among our people," General Abubakar said.

New disturbances erupted in southwestern Nigeria on Friday over the death of Mr. Abiola as international pathologists carried out an autopsy to verify the cause of his death.

Witnesses in Nigeria's second-largest city, Ibadan, said clashes had broken out between Abiola loyalists and traders whose origins lie in the north, as have those of most of Nigeria's post-independence rulers.

"There is trouble in the Molete and Oke-Ado districts," a journalist said by telephone from Ibadan, a city of two million. "I went to Molete and there was fighting raging there. All the taxis and buses have left the street."

Up to 60 people have died in rioting by Mr. Abiola supporters in the southwest. His supporters accuse the military government of killing Mr. Abiola.

The autopsy by the international pathologists was demanded by the Abiola family, and welcomed by General Abubakar, to determine whether the cause of death was cardiac arrest, as an official statement had said.

"As long as the autopsy has not been done then there can be no talk of a burial date," the Abiola family doctor, Ore Falomo, said in Lagos. "I think we are more than likely looking at either Saturday or Sunday."

The autopsy was delayed until Friday afternoon by the late arrival in Lagos of one of the international experts.

Mr. Abiola was detained in 1994 under General Abubakar's predecessor, General Sani Abacha, for declaring himself president on the basis of the 1993 election, which was regarded as one of Nigeria's fairest.

The death of General Abacha on June 8 threw the oil-producing country of 104 million people into political confusion, ending a discredited plan to restore democracy through presidential elections in which he was to have been the only candidate.

See our
International Franchises
every Wednesday
in The Intermarket

■ Family Appeals for Calm

Roger Cohen of *The New York Times* reported from Lagos:

Deprived of its leading figure, the opposition is in some disarray, deeply concerned that further widespread rioting could provide an excuse for a military clampdown or delay movement toward democracy.

There seemed to be little threat of mass protests that could bring down the recently installed leader. General Abubakar, because the opposition is fragmented, Nigeria's unity is fragile and there is no obvious successor to the military ruler.

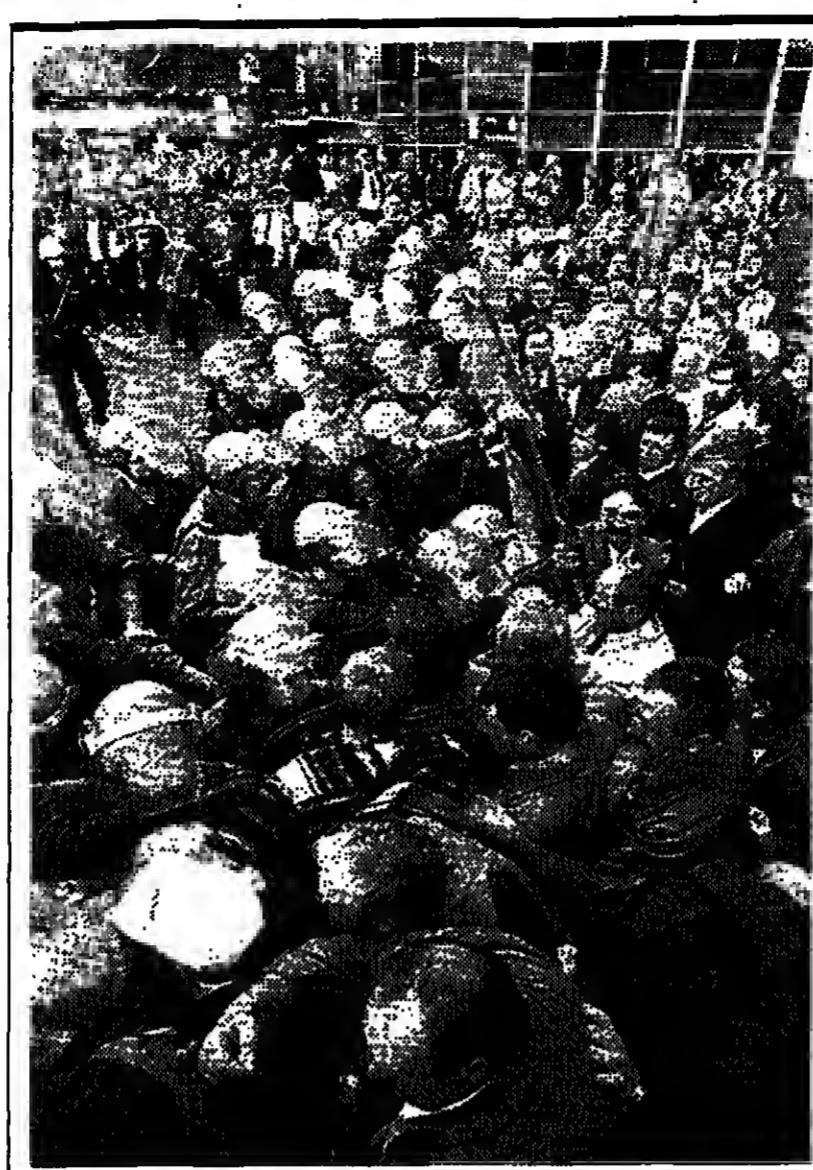
General Abubakar, who has impressed Western officials with his reform-minded moderation since he took office last month, convened the 27-member Provisional Ruling Council, the heart of the country's military authority, Thursday for the second time in two days.

But the meeting adjourned with no announcement on how or when a democratic system might be introduced.

General Abubakar's commitment to change appears clear and was reiterated to the South African deputy president, Thabo Mbeki, who visited Nigeria on Thursday.

But the general faces a delicate choice between a gradual process that could prove too slow to assuage an impatient nation and a rapid shift that might precipitate chaos.

Western officials said Thursday they doubted that an elected president could take office before Jan. 1, 1999.



FARMERS PLOW THE STREETS — Police dispersing farmers with tear gas Friday in Warsaw. About 5,000 farmers demanded government protection for Poland's farms and a cut in imports.

Marine Aviators to Be Tried for Crash

The Associated Press

CAMP LEJEUNE, North Carolina — A Marine general on Friday ordered military trials on manslaughter charges for the pilot and navigator of a jet that cut an Italian ski gondola cable and killed 20 people.

Lieutenant General Peter Pace, commander of Marine Corps forces in the Atlantic, determined that there was sufficient evidence to justify a general court-martial of Captain Richard Ashby, the pilot of the EA-6B Prowler anti-radar jet, and Captain Joseph Schweitzer, the navigator.

The statement said the two would face charges of "involuntary manslaughter, negligent homicide, damage

to military property, damage to private property and dereliction of duty."

But General Pace dismissed charges against two electronic countermeasures officers, Captain Chandler Seagraves and Captain William Raney II. They sat in the rear of the jet's cockpit, and evidence during a preliminary hearing showed they had no control over the plane and very limited visibility.

General Pace's decision followed the recommendations of military judge, Lieutenant Colonel Ronald Rodgers, who presided over hearings at Camp Lejeune of the four Marines.

Marine Corps investigators have said the Prowler was flying too low and too fast on the Feb. 3 training run from

Aviano Air Base in the Italian Alps.

The plane hit the cable at 370 feet (about 113 meters), well below the minimum permitted altitude of 1,000 feet. The four fliers, all on assignment from Cherry Point Marine Corps Air Station in North Carolina, denied flying recklessly.

The incident, near Cavalese, soured Italian-American relations, prompting calls to close U.S. bases throughout Italy and charges that American fliers routinely "hot-dog" in Italian airspace.

Defense attorneys have said the plane hit the cable after accidentally dipping too low. They said the cable was not marked on charts of the area.

Warning Reported For Israeli Leaders

Agence France-Presse

JERUSALEM — Israel's domestic security service, the Shin Beth, has warned the government for the first time in the history of the Jewish state of a risk of attacks by Jewish extremists against Israeli officials, a Tel Aviv daily reported Friday.

In a security assessment prepared for the government, the Shin Beth warned that such extremists, inspired by the December 1995 assassination of Prime Minister Yitzhak Rabin, might attack government officials or members of the security forces, Ha'aretz said in a report written by Ze'ev Schiff.

The report warned the risks would increase dramatically in the event of Israel's going ahead with further troop withdrawals from the West Bank, long-overdue under peace agreements with the Palestinians, the paper said.

In recent months, the Shin Beth has stepped up security around Prime Minister Benjamin Netanyahu after he received a number of death threats.

George Lloyd, Neoromantic Composer, Is Dead

New York Times Service

George Lloyd, 85, an English symphonist and opera composer who rejected the major stylistic currents of the 20th century in favor of the language, coloration and sheer lushness of late Romanticism, died July 3 in London.

Critics were divided about Mr. Lloyd's music. Some found it refreshingly communicative. Others considered it old-fashioned. Even his detractors, however, recognized his compositional voice as authentic and original, not merely a 19th-century pastiche. Although his language was unabashedly tonal, there is a freshness in the melodic writing in the 12 symphonies he composed between 1932 and 1990, and there are engaging complexities in his solo piano works.

Beginning in the late 1970s, when English musicians began reviving his long-neglected scores, Mr. Lloyd

built a strong popular audience. In America, the Albany (New York) Symphony Orchestra offered him a guest conducting position in the late 1980s, and with that orchestra he recorded his Symphony No. 1 and Symphony No. 12 in 1990. He also maintained an association with Albany Records, an enterprising American label that recorded several disks of his music, both the United States and in Britain.

The success Mr. Lloyd enjoyed

during the last 20 years belatedly mirrored that of his early career. He was born in 1913 in the English town of St. Ives in Cornwall. bouts of rheumatic fever kept him out of school until he was 11. He completed his Symphony No. 1 when he was 19. Two more symphonies followed in close succession, and by the time he completed the third, in 1935, Mr. Lloyd had also written his first opera.

Having had three symphonies and two operas performed by the age of 25, Mr. Lloyd was regarded as a promising composer when the World War II intervened. He was a gunner on Arctic convoys and a member of the Royal Marine Band when his ship was blown up in 1942. He was rescued, but was severely traumatized, and his childhood health problems recurred.

Through the 1950s and '60s he continued to compose, however, between 4:30 and 7:30 A.M. every day.

A story told about Mr. Lloyd in the late 1980s suggests the extent of the popularity that his works had achieved. When Tower Records opened its outlet in London, Mr. Lloyd wandered into its classical department and heard one of his works on the sound system. Surprised, he walked to the counter and asked a salesman, who was dressed in punk

fashion with orange spiked hair and a nose ring, what was playing.

The salesman replied, "Why, sir, it's your Fifth Symphony."

Wayne Calloway Dies at 62; CEO of Pepsico for a Decade

NEW YORK (NYT) — Wayne Calloway, 62, the former chairman and chief executive of Pepsico, who combined a quiet, introspective management style with an intensely competitive business strategy, died here Wednesday after a long battle with prostate cancer.

Mr. Calloway became Pepsico's chief financial officer in 1983 and was named to the top job in 1986. He stepped down in 1996, citing health concerns.

Under Mr. Calloway's direction, Pepsico acquired Kentucky Fried Chicken. It was spun off last fall. Mr. Calloway saw the market value of Pepsico increase by \$35 billion.

BOOKS

GHOST COUNTRY

By Sara Paretsky, 386 pages. \$24.95. Delacorte.

Reviewed by Grace Lichtenstein.

WITH apologies to Sue Grafton, Sara Paretsky's sister crime novelist, G

is for guts. Paretsky probably

could have kept writing best-

selling mysteries forever

about her hard-boiled female

private eye, V.I. Warshawski.

Instead, she has chosen to

leave V.I. behind for the time

being in order to produce an

ambitious novel about some

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nating stretch.

Paretsky's mysteries al-

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institutions such as hospitals,

as well as a feminist-activist

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Hector Tammuz, "Ghost

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religion

ART

The Vanishing World of Classic Prints

By Souren Melikian
International Herald Tribune

LONDON — In just two days this week, the auction scene gave the full measure of the transformation undergone by Western culture as reflected in collecting within the last three decades.

The sale that most strikingly symbolized the change in artistic perception during that interval was that of a collection of engravings by Albrecht Dürer at Christie's. It had been formed, mostly in the 1950s and the 1960s, by an aristocrat of German-Austrian stock, Count Antoine Seilern.

Born in 1901 in Surrey, England, the count belonged to a generation that read the classics in Latin and Greek. He and his peers admired the Renaissance humanists, were at home in three or four languages, and, when attracted to collecting, took a passionate interest in art forms that visually necessitated close attention to nuance and intellectually imply intimate acquaintance with literature.

Engravings were the quintessential example and among these, Dürer's work, with its many allusions and symbols drawn from the Old Testament, medieval tales or the classics in Greek and Latin, was seen by many as ranking supreme.

Those who went after such prints probably numbered only in the hundreds, if that. They did so as a matter of personal inclination, not to show off, let alone to invest. At sales, the atmosphere was that of a club whose members know each other, if only by sight.

Today, this world has all but vanished. The capacity or willingness to concentrate intensely, the visual ability to take in very fine nuances in delicate strokes and shades, is gone. The familiarity with

the classical sources is a memory of the past. Not that prices have declined. Supplies having dwindled, they have multiplied 15 or 20 fold.

A first impression of "Melencolia I," done in 1514, was sold this week for £232,500 (\$379,000). Extraordinarily sharp, it was deemed to surpass the British Museum specimen. "Saint Jerome in His Study" in an impression that is not nearly as perfect, cost \$43,500, and "Adam and Eve," perhaps the artist's most famous image, went up to an astronomical £67,500.

Prices have never been so high and this

has dealt the final blow to collecting as a form of living culture.

On financial level, buying art ceases to be the carefree, spontaneous pursuit it was in the past. The connoisseurs of yore have left the floor to institutions and to buyers who chase rarities on the advice of experts. Much the same change has affected the other great fields of collecting that attracted the old European elite — whether small sculpture or rarefied objets d'art from the Middle Ages to the Baroque Age.

On Tuesday, Christie's was the center of attention with two bronze of the utmost rarity. The greatest got the least publicity — the elongated Romanesque bronze figure of a Saint John the Evangelist once attached to a crucifixion group or a reliquary. Dug up in 1972 on a farm not far from Bury St Edmunds in Suffolk, it came up at Christie's that year and caused a sensation. Calling to mind a famous baptismal font with high-relief figures cast by Rainer of Huy early in the 12th century in the Mosan area, but probably English, it soared to an unheard-of £36,750. This week, the small bronze, estimated to be worth £200,000 to £300,000, remained unsold

The reality is that hardly any collectors remain in the field. There are three or four millionaire buyers the world over who seek advice before committing themselves and focus on spectacular works. Even on the most modest financial level, reticence regarding medieval objects was perceptible. A beautiful tripod bronze vessel, very important to the history of medieval vessels because the location of its discovery is known — it was dug up last year in Wales — just made it to its low estimate, £3,450. It will probably end up in a regional museum. Minutes later, a good processional cross from 15th-century Tuscany sold below the low estimate, for £4,830.

THE medieval art that sells really well without being of super-museum quality is sculpture of some size. It is often bought by collectors who look for sculpture more than medieval art as such — the head of a 14th-century Virgin broken off long ago largely exceeded its estimate as it went up to £34,300 in Sotheby's sale. The same is increasingly true of Renaissance sculpture, bronzes in particular, if large enough, go through the roof.

The success story at Christie's on Tuesday was not the wonderful Saint John the Evangelist (which failed) but a rather lachrymose, mannered "Saint Sebastian" figure signed "Alexander Vitoria." Considered by the Christie's specialist Donald Johnston to be one of the three bronzes actually mentioned by Vitoria in period documents, the bronze had hitherto remained "unrecognized" in the hands of a French family. This implies that the Saint Sebastian figure was thought to be a later cast — even a child could read the signature engraved on the pedestal in monumental lettering.

The revised opinion sent the figure soaring to £936,500, a record price for a bronze carrying the name "Alexander Vitoria."

At Sotheby's, it was also sculpture that turned Wednesday's sale into a fairly successful performance. It featured a terra-cotta bust of a child, Edward Salter, who eventually played a minor role in English history. The bust was molded in 1748 by Michael Rysbrack in his blandly realistic manner. Disputed between dealers, it made a huge £276,500 and should soon find its way into some U.S. institution or large collection on the lookout for safely signed, large, documented works. The collector's search for beauty has given way to the board of trustees' love for near catalogue entries.

But that new type of buying has its limits, financially speaking. What should have been the star piece turned out to be a failure. Rysbrack's bust of Daniel Finch, 2d Earl of Nottingham, important as it may be to the history of Protestantism and English monarchy, was unsold at £340,000. Perhaps even investors and boardrooms found it a bit too trite to justify the £400,000 to £600,000 estimate.



A first impression of Albrecht Dürer's "Melencolia I."

in the longer term, collapse through complete loss of relevance to collectors that no longer exist and to buyers-on-advice who will find other temptations.

A Bonanza Of Archives

By Carol Vogel
New York Times Service

NEW YORK — During his 60 years as a dealer, Pierre Matisse exhibited some of the greatest artists of this century in his gallery, including modern masters like Miró, Balthus, Chagall, Dubuffet, Tanguy, Mondrian, Giacometti, de Chirico and his own father, Henri Matisse.

By the time of his death in 1989, Pierre Matisse had amassed files stuffed with correspondence from all the artists with whom he had worked, letters from his father, exhibition catalogues, gallery records and letters from museums and collectors, as well as photographs and prints.

These archives, which document nine decades of 20th-century art in New York, have been given by the Pierre Matisse Foundation to the Pierpont Morgan Library. They will be available for study in January.

"It's an extraordinary treasure trove," said Charles Pierce Jr., director of the Morgan, which was founded as a public institution in 1924. "In terms of developing our 20th-century holdings, this is about as good as it gets."

Both an art museum and a study center, the Morgan has a collection of artists' letters dating from the 15th to the 20th century. Its strength has been its holdings of Italian Renaissance artists and many unusual documents, such as a series of 30 letters written by Manet during the 1870-1871 siege of Paris.

With this new gift, the Morgan will document the recognition of some of the greatest artists of this century and will provide a peek at a very private man who opened American eyes in their work.

The Hermitage and Catherine the Great Collector

By Roderick Conway Morris
International Herald Tribune

FLORENCE — Catherine the Great's grandiose plans to build in St. Petersburg a gallery to rival the best in Europe were initially met with undisguised skepticism by her friend and adviser Diderot. Only with the additional aid of prints of major works suggested the French philosopher and Encyclopedist, could the Russians hope to cover the full gamut of Western painting, "since those who do not possess the original of a book are obliged to read it in translation."

But Catherine, who once described herself as not so much a lover of art as "a glutton" for it, was not to be diverted from this ambition any more than from the other multiple schemes this German-born princess brought to fruition during her 17 years as grand duchess and empress in waiting, and 34 years as the absolute ruler of her adopted homeland.

The upshot was the Hermitage, which by the time of Catherine's death in 1796 had well over 2,500 canvases, many of superb quality, and tens of thousands of other works, from sculptures, tapestries, coins and medals to cameos, enamels, silver and porcelain.

To do justice to the immensity of this collection, which has been further enriched by continual additions over the following two centuries, would, of course, be impossible in a loan exhibition.

But the nearly 250 pieces on display at "Catherine of Russia: The Empress and the Arts" (which continues at Palazzo Strozzi in Florence until Aug. 9) give a taste of the voracity and breadth of her collecting fervor. They include some personal items, such as dresses in regimental colors that Catherine wore when, as colonel in chief, she doled out vodka to her fellow officers, manuscripts in her hand, and a mag-



Catherine the Great, an anonymous portrait from the 1780s.

nificent carved and gilded sleigh representing St. George killing the dragon.

Though the show is rather short on

Catherine came to power as the result of a coup in 1762 staged by army regiments. Her deposed husband, Peter III, who had treated her badly and threatened to divorce her, was afterward strangled by her army supporters during a dinner. They were led by the Orlov brothers, one of whom was her lover. Peter and a good number of Catherine's ministers, generals and advisers, many of whom shared her bed at one time or another, appear among the portraits.

Catherine secured a phenomenal range of old masters — only modestly represented in this exhibition by half a dozen or so canvases by Titian, Veronese, Palma il Vecchio, Rubens, Jordaeus and Poussin — thanks to her agents' success in obtaining large existing collections, notably those of Frederick II (who had run into financial difficulties), Heinrich von Bruehl ("the Saxon Richlieu"), the French banker Pierre Crozat and the English prime minister Sir Robert Walpole.

This was often in the face of local opposition in the countries from which the works were to be exported, which Catherine overcame with that same unwavering determination, shrewd choice of advisers (Diderot's intervention, for example, was decisive in the removal of the Crozat collection from France), and lavish expenditure that allowed her to expand Russia's borders considerably during her reign.

PETER the Great, one of Catherine's forerunner and founder of St. Petersburg, passed through Venice in the summer of 1698. Although he personally showed more interest in acquiring Dutch and Flemish pictures, this visit marked the beginning of a flourishing artistic relationship between the two countries that brought many Venetian artists, architects and craftsmen to the new Russian capital in the decades that followed.

The Next Big Event: 'Turandot' in Beijing

By Erik Eckholm
New York Times Service

BEIJING — The superlatives are swirling around the "Turandot" that will be mounted this September in a 500-year-old courtyard of Beijing's Forbidden City.

With Zubin Mehta as conductor and artistic chief, the Chinese filmmaker Zhang Yimou as director and a colorful temple where emperors once offered sacrifices to their ancestors as backdrop, this production is sure to be an event.

"Turandot," the story of a cruel princess who finally succumbs to love, was Puccini's idea of a Chinese fairy tale, and not a few impresarios have imagined it among the splendors of the Forbidden City. But this is the first time anyone has managed to fight through Chinese red tape and pull it off. Eight performances are scheduled, from Sept. 5 to 13.

With a budget of \$15 million, this will be the most expensive opera staging ever, Michael Ecker, the Switzerland-based co-producer, said at a news conference on Wednesday on the old palace grounds.

Mehta and Zhang, the filmmaker known for "Red Sorghum" and "Raise the Red Lantern," had a trial run with the production last year in Florence. The producers would like to attract up to 20,000 fans from abroad and are hoping companies will buy blocks of seats.

Still, Ecker said be expected that most viewers would be Chinese, adding that prices would be cut for local residents at two performances. The production will be broadcast on television in much of the world.

Mehta, speaking by television hookup from

Munich, said that acoustics were a challenge in the outdoor setting but that he was confident that the sound engineers could create opera-house quality.

The Florence Opera/Maggio Musicale Fiorentino will provide the orchestra and chorus, as it did last year. Chinese artists will design the sets, Ming-style costumes and choreography; a Chinese ballet company, children's chorus and 500 extras will complete the cast.

Turandot will be sung by Sharon Sweet, Giovanna Casolla and Andrey Stolnik; Lin by Angela Maria Blasi, Barbara Fritoli and Barbara Hendricks, and Calaf by Lando Bartolini, Kristjan Johansson and Sergei Larin.

About 4,200 people can attend each performance. Tickets start at \$150, but those including a gala dinner with the performers cost \$350, and "sponsors" will pay \$1,500.

At the news conference, Zhang wore his usual doleful expression until Mehta appeared on the television hookup. Zhang's face came to life as he waved, exclaiming, "Maestro Mehta, it looks like you've lost some weight!"

Zhang said he hoped to create an atmosphere of fraternity through the production and join people of different countries in a "spiritual and emotional exchange."

THE official embrace for "Turandot" contrasts with the debacle of "The Peony Pavilion," which was not mentioned at the news conference. A Shanghai company was to perform the classic Chinese opera at the Lincoln Center Festival in New York this month, but a cultural official stopped the company from leaving China, saying that the production was pornographic and that it violated tradition.

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Mia Hulton, 33, and her companion, Ryszard Szukin, 47, chatting in the kitchen of their home in Stockholm. Like many European women, she is focused on her career and has no plans to have children anytime soon.

BIRTHS: Across Europe, the Number of Newborns Is Too Low to Renew the Populations

Continued from Page 1

derful," said Jean-Claude Chesnais, director of research at the National Institute for the Study of Demography in Paris.

"Certainly to control fertility in China, Bangladesh, much of Africa — that is an absolute triumph," he said. "Yet, we must look beyond simple numbers. And here I think Europe may be in the vanguard of a very profound trend. Because you cannot have a successful world without children in it."

The effects of the shift will resonate far beyond Europe. Last year Japan's fertility rate — the number of children born to the average woman in a lifetime — fell to 1.39, the lowest level it has ever reached in that country.

In the United States, where a large pool of new immigrants helps keep the birthrate higher than in any other prosperous country, the figure is still slightly below an average of 2.1 children per woman — the magic number needed to keep the population from starting to shrink.

Even in the developing world, where overcrowding remains a major cause of desperation and disease, the pace of growth has slowed almost everywhere.

Since 1965, according to United Nations population data, the birthrate in the Third World has been cut in half — from 6 children per woman to 3. In the last decade alone, for example, the figure in Bangladesh has fallen from 6.2 children per woman to 3.4.

Little more than 25 years have passed since a set of computer studies sponsored by the Club of Rome, an international think tank, showed that population pressures would devastate the world by the mid-1990s.

Nothing of the kind has come to pass. The authors of that dire forecast could not have foreseen that women in countries like Italy would now be producing an average of fewer than 1.2 children.

the lowest figure ever recorded among humans, or that the Berlin Wall would disappear, creating economic uncertainties that have frozen the birthrate from the Black Forest to Vladivostok.

There has long been an assumption that low birthrates were better than high birthrates. Fewer people put less strain on the resources of the planet. And, as a country becomes richer its people have fewer children.

If more people are needed, immigration can be a solution — and in many places, specialists now think it is the only one left.

But Europe, unlike the United States, has been resistant to immigration.

Decades ago in Sweden, with its birthrate dwindling, officials decided to try to increase the number of newborns by financially supporting family life with a rare public generosity. Couples who both work and have small children enjoy cash payments, tax incentives and job leaves combined with incredible flexibility to work part-time for as many as eight years after a child's birth.

Sweden spends 10 times more than Italy or Spain on programs intended to support families. It spends nearly three times as much per person on such programs as the United States.

So there should be no surprise that Sweden, despite its wealth, had the highest birthrate in Europe by 1991.

With a population of 10 million people, most of whom are middle class, Sweden may have little in common with other Western countries. But its experience clearly suggests that if countries wanted more babies they would have to pay for them, through tax incentives, parental leave programs and family support. At least that is what nearly all the experts have thought. "We were a mod-

el for the world," said Marten Lagergren, under secretary in the Ministry of Social Health and Welfare, and the official who is responsible for keeping track of the birthrate in Sweden.

"They all came to examine us," he said. "People thought we had some secret. Unfortunately, it seems that we do not."

Sometime after 1990, the bottom dropped out of Sweden's baby boom. Between then and 1993, the birthrate fell sharply, from 2.12 to 1.6.

Most people blamed the economy, which had turned sour and had forced politicians to trim — but ever so slightly — the country's benefit program.

It is normal for people to put off having children when the future looks doubtful, so the change made sense.

But then, the economy got better and the birthrate fell faster and farther than ever. By March of this year, the figure for Sweden was the almost same as that in Japan — 1.42. And officials think it might be falling even more.

"Nobody on Earth can tell you what is going on here," said Mac Murray, a philosopher trained in statistics who is in charge of strategic planning for the nation's school system.

"Sometimes I think it must be just a fluke — we've had them before — and everything will turn out the way we expect it to," he said. "But I guess I don't really believe that. I believe we are seeing a fundamental shift in human behavior."

"We have lived for 200 years on the idea of progress. That the future will be better than the past. It's a universal belief — not just in our little country."

"But I think those days have ended now. I have no data to support my views. But young people now seem to have a

RUSSIA: Pressure to Aid Moscow Mounts

Continued from Page 1

upper house.]

"Russia's financial predicament has gone from bad to worse this week."

Late Thursday, the government postponed for the second time the auctioning of the state oil company, Rosneft, because of a lack of bids. Officials said the sale would be delayed until September or October.

The government hopes to receive more than \$1.5 billion of desperately needed revenue in exchange for controlling interest in the company.

Separately, the government, desperate to raise cash to pay debts coming due, offered government bonds for sale at interest rates around 100 percent, but investors bought only about one-quarter of the \$1 billion in bonds.

Meanwhile, senior officials at Moody's Investors Service Inc. warned that to stem a devastating flight of capital, Russia would need a bigger international rescue than previously thought, perhaps as much as \$20 billion.

The 182-nation IMF is wary of throwing good money after bad, having already agreed two years ago to lend Russia \$9.2 billion. The IMF is insisting that before any new money is disbursed to Moscow, Russia must enact far-reaching tax changes to raise revenue and take other painful measures to put its dysfunctional economy on a sounder footing.

Russian leaders "have an abysmal record of announcing policies but not implementing them, and in this particular case things are going to have to be

implemented before we sit around the table and approve more money," an IMF official said. "Chubais is obviously trying to raise expectations and put pressure on us."

[Investors remained optimistic that a deal would be reached, the main RTS index ending the week at 144.02, up 5.75 percent on the day, leaving shares down around 5 percent this week, Agence France-Presse reported from Moscow.]

Officials here at the IMF and the World Bank, which are also negotiating a package they are contemplating. But they have been warning for weeks that they are in no position by themselves to provide the amounts the Russians are seeking.

The IMF, having committed about \$35 billion to stem crises in three Asian countries, says it has only about \$10 billion to \$15 billion available, and it isn't about to give all of that to Russia, staff members said.

The World Bank, already up against credit limits for lending to Russia and also heavily exposed in Asia, is negotiating a loan of about \$500 million to \$600 million for Moscow, according to a spokeswoman.

A bigger loan package might be cobbled together by tapping direct contributions from the United States and other members of the Group of Seven major industrial countries. But the Clinton administration — in part because it fears the political fallout a loan to Russia might engender — has taken the position that aid to Moscow should be strictly multilateral, to the irritation of some officials at the IMF and the World Bank.

[These international institutions are getting tapped out," said an international financial official who insisted on anonymity for himself and his institution. "The G-7 are trying to stabilize this cratering world economy without touching a penny of their own money, and one day they're going to have to get real." Even if the IMF had more money, other experts add, it would be reluctant to provide too big a loan to Russia, because it doesn't want to appear to be riding to the rescue of foreign investors who bought Russian government bonds. Those bonds have offered very attractive interest rates, and the foreign banks and brokerage firms that invested in them have been clamoring for an IMF bailout lest Moscow be forced to devalue the ruble.

But geopolitical concerns may prevail in the end. The IMF, which is heavily influenced by the United States, its largest shareholder, ultimately may have little choice but to concoct a rescue that can convince the financial markets that Moscow has the resources to meet its obligations.

Prague Gets New Leader Amid Havel Skepticism

The Associated Press
PRAGUE — President Vaclav Havel will name Milos Zeman prime minister next week despite doubts about a tolerance pact struck between Mr. Zeman and the former prime minister, a presidential adviser said Friday.

On Thursday, Mr. Havel said he would "most probably" name Mr. Zeman prime minister but would seek outside counsel on whether the agreement between the head of the Social Democrats and the former prime minister, Vaclav Klaus, violates the constitution.

Under the agreement, Mr. Klaus's party will permit the formation of the new minority government under Mr. Zeman by leaving Parliament during the vote on approval.

In exchange, Mr. Klaus's party will be allowed to appoint the speakers of both chambers of Parliament and the chairmen of key parliamentary committees.

Both parties also agreed not to initiate a no-confidence vote during the lower chamber's four-year term and not to push to dissolve the chamber before the term's end.

Each side also promised not to form a coalition or an alliance with a third party to the detriment of each other's party.

Mr. Havel called the deal a "non-standard solution," adding he was worried the two leaders could share power in the country for a long time, obliterating the influence of small parties and limiting political pluralism.

Under the agreement Mr. Zeman and Mr. Klaus control 137 seats in the 200-seat legislature.

Jim Peche, the president's chief political adviser, predicted that despite his doubts Mr. Havel will name Mr. Zeman prime minister.

On Friday Mr. Zeman dismissed Mr. Havel's worries as unfounded.

He said the pact would not change the program that his party published before the elections.

INDONESIA: Reforms Embolden Foes

Continued from Page 1

the agitation was resentment among local ethnic or religious minorities in these areas toward large numbers of settlers from other parts of Indonesia, and the domination of local political power and valuable economic resources such as timber, oil, natural gas and minerals by outsiders.

"Indonesian leaders may be worried about calls for independence of Irian Jaya, but they need to understand the depth of resentment there at the way the province has been administered," said Sidney Jones, executive director of the Asia division of Human Rights Watch in New York.

"If local and national government officials had undertaken a serious dialogue with influential public figures, church leaders, and representatives of human rights organizations in Irian Jaya," she said, "the deaths and injuries of the last few days might have been averted."

She said that the province was one of Indonesia's richest in terms of exports, yet "it remains one of the poorest and most backward in terms of social services and education."

Indonesia has a history of secessionism in times of weak rule from Jakarta. With a population of 200 million, the country is a mosaic of different ethnic and religious groups scattered over more than 13,000 islands that stretch for 5,000 kilometers (3,000 miles), from Aceh on the western tip of Sumatra to Merauke on the southeastern tip of Irian Jaya.

Even before the recent unrest in Irian Jaya, some analysts were warning of the potential danger of Indonesia becoming another Yugoslavia, where the end of strong centralized rule and the spread of ethnic and religious divisions created splits in the country that are still continuing.

"There are more than 300 ethnic groups in Indonesia," said Richard Woolcott, a former Australian ambassador to Indonesia who is now director of the AustralAsia Center of the Asia Society in Melbourne.

"Balkanization could unleash the centrifugal forces so far successfully held in check," he said.

While Indonesian military leaders say that they support a program of gradual reform, they also see themselves as guardians of national unity and stability.

"The crucial thing is unity," Lieutenant General Bambang Yudhoyono, the military's head of sociopolitical affairs, wrote Tuesday in a leading Indonesian-language newspaper. "United we stand, divided we fall."

The defense minister and the armed forces chief, General Wiranto, said that the hoisting of separatist flags at demonstrations in Irian Jaya was "treachery" and warned that attempts to challenge the unity of Indonesia would not be tolerated.

But in an interview in the latest issue of *Time*, the East Timorese guerrilla leader Jose Xanana Gusman, who is in jail in Jakarta for plotting against the Indonesian state, said that there could be no solution to the problem of East Timor without a referendum.

"Every military person who has served in East Timor knows in his heart of hearts that the East Timorese do not want integration with Indonesia, and that the only permanent solution is to hold a referendum," he said. "Otherwise the situation will just continue as it did in Palestine."

ULSTER: Blair Initiates Last-Ditch Talks on March to Avert Northern Ireland Violence

Continued from Page 1

said: "This is an attempt, and a genuine attempt, to address what are very difficult circumstances through dialogue. What the whole peace process has been about is to replace terror and violence with dialogue and democracy."

Politicians and security officials fear that if there is no resolution of the dispute by Saturday night, thousands of Orangemen from all over the province will march on Drumcree and clash with the hundreds of police and British soldiers blocking the roads connecting the Protestant and Catholic neighborhoods.

Since Sunday, Protestants have attacked police with more than 500 gasoline bombs, hijacked and burned dozens of cars and blocked major roads.

Four police officers were hospitalized Friday morning after surgery for injuries from shrapnel and a fifth was admitted after being hit by a ball bearing fired by shotgun from a crowd of 20,000 or more massed near a rural church outside Portadown.

Police fired plastic bullets at demonstrators who breached security barriers. Nine people were arrested. It was the fifth night of violence since authorities stopped a march by the Orange Order from passing through a Catholic neighborhood.

"The incidents last night are deplored by ourselves, but it is understandable. People see that peaceful protest isn't getting them anywhere," said David Jones, a spokesman for the Orange Order, Northern Ireland's largest Protestant brotherhood.

Officials, Catholic and Protestant alike, fear that more violence is likely over the weekend, when tens of thousands of Orangemen march throughout the province to celebrate the victory at the Battle of the Boyne in 1690 of the Protestant William of Orange over his Catholic father-in-law, King James II. The victory established the Protestant Ascendancy and English rule in Ireland.

By increasing Catholic and Protestant hostility, the Drumcree crisis threatens the stability of the Northern Ireland peace agreement, approved in May. The agreement provides the province with a new assembly to restructure provincial

politics and give the Catholic minority more political power. If Protestant members of the assembly were to resign over the banning of the parade, the new structure could fall apart, leading to a resumption of widespread sectarian warfare.

As the news of Mr. Blair's initiative became known Friday evening, the province seemed to have a small sigh of relief, however tentative.

At the Europa Hotel, which has been devastated repeatedly in the last 10 years by Irish Republican Army bombs, the staff was somewhat relieved.

"Everything at all that seems possible for sorting out this situation is certainly something to be optimistic about," said Gerard Gillan, the concierge.

■ Search for Compromise

Leaders of Northern Ireland's new assembly sought Friday to drum up support for compromise over a blocked Protestant march. The Associated Press reported, but a spokesman for the marchers said he feared the impasse would lead to a lethal clash pitting Protestant hardliners against police and soldiers.

Prime Minister Blair said in a television interview that the law would be enforced and that he would not tolerate attacks on security forces.

David Trimble, the newly elected first minister of Northern Ireland's assembly, and his deputy, Seamus Mallon, were

meeting with religious, business and labor leaders, hoping to drum up support for compromise.

"We haven't given up, nor will we give up. We will endeavor to see what we can do to reach an accommodation," said Mr. Trimble, a member of the Orange Order and leader of the Ulster Unionist Party, which gets most of the Protestant vote in Northern Ireland.

The long-dreaded confrontation over the Drumcree march has provoked the worst violence in Northern Ireland since eight parties agreed in April on a new government that would share power between Catholics and Protestants. This was approved by Northern Ireland residents in a referendum the next month.

"I hope everyone remains calm and peaceful and realizes that we must not let this process, which has been agreed by the people in the referendum, agreed by people through their votes for the new assembly, to be hijacked by extremists from any side," Mr. Blair said.

Engineers repaired barbed-wire lines breached by demonstrators and expanded ditches dug to channel the marchers.

Orange leaders said they regretted the attacks by their supporters but they also said worse violence might develop.

Hundreds of Orange marches are scheduled for Monday. The vast majority are expected to cause no trouble, But Anglican Archbishop Robin Eames

said he feared that "nothing on earth" could control the crowds at Drumcree, which had swollen to 20,000 or more Thursday night.

The protest is rapidly getting out of control. I would plead with both sides to take the long view," Archbishop Eames said.

The archbishop joined Catholic, Presbyterian and Methodist leaders at a meeting with Mr. Trimble, the newly elected first minister of the assembly, and his deputy, Mr. Mallon.

Pope Appoints Head Of Church in France

Agence France-Presse

VATICAN CITY — Pope John Paul II on Friday appointed the archbishop of Aix-en-Provence, Louis-Marie Bille, to become the new primate of the French Roman Catholic Church.

Archbishop Bille, 60, assumes the title of archbishop of Lyon and Roanne, the historic seat of the foundation of the church in France. He was bishop of Laval between 1984 and 1995 before succeeding to Aix-en-Provence.</

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Paper Money on the Net: One Billionaire's Primer

Amazon.com Rewrites Bookselling Script

By David Streitfeld
Washington Post Service

SEATTLE — The first billion is always the hardest. It took Jeff Bezos four years. He made his second over the last six weeks. Even by the overheated standards of the late '90s, this is quick.

Mr. Bezos, 34, does not act rich. He lives with his wife in a tiny rented apartment, drives a Honda Accord, works out of a shabby office that has a view of a pawnshop and a wig store. His desk is a recycled door with legs attached.

Most of his wealth exists on paper: He owns 19.8 million shares of the online bookseller Amazon.com, which he founded in 1994 and whose stock closed Friday at \$100 a share, up from \$45 in early June and about \$11 a year ago. That was even after a drop of more than \$20 in the past four days as some analysts started to question the stock's stratospheric valuation.

Paper has been good to Mr. Bezos. He was not the first to see that the Internet offered a useful way to match up people and books, but he pushed the concept harder and faster. Three years after making its first sale, Amazon is the third-biggest bookseller in the United States.

So far, the company has defied prognosticators who said the two biggest, Barnes & Noble Inc. and Borders Group, would quickly crush it. But while Amazon stockholders are making money, the company is not. And it recently had to raise funds by issuing bonds that were promptly labeled junk by Wall Street.

Nevertheless, the company has changed the landscape of book retailing: For the first time, nearly any book is only a mouse click and a few days away from any reader in the country. And that is changing the way publishers publish and readers read.

Only a few years ago, futurists were predicting that the digital age would be the death of conventional publishing. Text would be downloaded from a central source. Interactivity would give readers the power to customize plots. Anyone could be a publisher.

Instead, one of the hottest businesses on the Internet is selling old-fashioned books — and not just best-sellers but poetry and weighty academic tomes and forgotten treasures of years gone by.

"Those of us who like postmodern ironic humor," said an Amazon vice president, Rick Ayre, "really appreciate the fact that the most successful e-commerce is the product that this medium was supposed to eliminate."

Yet Amazon's current dominance could vanish as rapidly as it was achieved. This explains the extreme reluctance of its employees to speak on virtually any aspect of the company. Ask the most basic questions — How many people work in customer service now as opposed to a year ago? What is the most popular category of books sold by Amazon? — and the answer almost invariably is, "Jeff wouldn't like me to tell you that."

Mr. Bezos does not want to provide any help to Barnes & Noble, whose online division got a late start. "To be nine times bigger than your nearest competitor," he said, "you actually only have to be 10 percent better."

One reason for Amazon's success is its willingness to advertise. At one point, the company was spending an incredible \$36 million marketing for every \$100 in sales. Because Amazon is merely a middleman in the book business — it uses the same supply pipeline as ordinary bookstores — establishing a name for itself was crucial.

It worked. Amazon, which will sell about \$400 million worth of books, music and videos this year, is on the verge of becoming as recognizable as Starbucks coffee — the last retailer to come out of Seattle and invade the country's consciousness.

"Amazon brilliantly, and at great expense, has branded," the book publisher Peter Osnos said. "When people think of ordering a book on-line, they think of Amazon. It's like Xerox. It's entered the language."

The concept of on-line bookselling is simple: Instead of people going in search of books, make it so the books can come to them. But it is safe to say that the book world itself did not anticipate such a possibility, or it would have tried to create something like Amazon. "I didn't think of it," said John Ingram, chairman of Ingram Book Co., the wholesaler that ships Amazon the majority of its titles. "Before 1995, I'm not sure I knew what the Internet was."

It took Mr. Bezos, a Princeton graduate whose previous job was running a Wall Street hedge fund, to see the potential. Already it has entered business mythology. "When Mr. Bezos in 1994 noticed the explosive new thing called the World Wide Web, he wanted in by the smartest available route. Methodically, he drew up a list of products that could be sold on the Internet, including computers, software, music, videos, clothing.



Jeff Bezos/The Washington Post

Jeff Bezos, above, avoiding the trappings of a billionaire in the Seattle offices of the Internet bookseller he founded, Amazon.com. At left, Michael Mabue working in the warehouse.

have to pay sales tax if they bought any books from an in-state company. Colorado was a possibility, but Mr. Bezos finally picked Seattle for its high-tech environment as well as access to an Ingraham warehouse.

In a business using the most sophisticated technology, Mr. Bezos's sole purpose is to retrieve something that thrived in the past.

"I want to transport on-line bookselling," he said, "back to the days of the small bookseller, who got to know you very well and would say things like, I know you like John Irving, and guess what, here's this new author. I think he's a lot like John Irving."

Once the customer has made his choice, a premium is put on speed. Most books arrive at the front door only a few days after the order is sent. "I abide by the theory that says in the late 20th century, the scarcest resource is

See AMAZON, Page 15

Asia Crisis Bites Into SAP Profit

Share Price Slumps 4.4% On Earnings Slowdown

Compiled by Our Staff From Dispatches

FRANKFURT — SAP AG, the biggest software maker in Europe, said Friday that the effects of Asia's financial crisis on its second-quarter business were worse than expected. The admission caused its shares to slump 4.4 percent.

SAP, which will give details about its mid-year results on July 20, said trouble in Asia had slowed its profit growth to 40 percent in the second quarter from a stellar 72 percent growth in the first quarter.

SAP, darling of the German stock market, saw its preference shares fall 46 Deutsche marks on Friday to close at 979 DM (\$534).

Even at that level, the shares are still up 76 percent this year, while the blue-chip DAX index is up 39 percent.

SAP's market value is second in Germany only to Allianz AG, the country's largest insurer.

"In the second quarter of 1998, the Asian crisis had a greater effect on earnings than was anticipated," the company said.

Slumping currencies in countries like Japan and South Korea cut Asia sales and made SAP the latest Western company to warn that economic problems in the region would hurt profit.

But the company said it still expected pretax profit for the full year to rise between 30 percent and 35 percent. Sales rose 60 percent in the first half, SAP said, although costs rose 66 percent.

Analysts said they were somewhat surprised by the announcement, but that SAP's business in corporate management software remained solid.

"SAP still is the undisputed leader in its market," said Hans Peter Wodniok at Credit Lyonnais.

The company also said that rising labor costs were denting profit.

Competition for top software developers forced SAP to offer a lucrative profit-sharing program that helped boost costs more than sales. Unveiled in March, the so-called Star program will pay employees bonuses based on this year's increase in SAP's share price.

"Hiring new workers always boosts costs, and it's understandable that Asia had an effect, but the figures are still excellent," said Walter Schmid, a fund manager at Gerling Investment Kapitalanlagegesellschaft mbH in Cologne. "We can't expect growth of 60 percent every year." (Reuters, Bloomberg)

Japan's U.S. Buying Spree Ends as Banks Retreat

By Andrew Pollack
New York Times Service

LOS ANGELES — Overcome by bad loans in their home country, Japanese banks and other financial institutions are in broad retreat from the U.S. market, closing offices and cutting back on their lending to American companies.

The situation represents a sharp reversal from the late 1980s and the early 1990s, when Japanese banks were expanding rapidly in California and elsewhere in the United States, gaining market share by aggressive lending at low rates and even raising some concern that the Japanese would dominate banking as they did consumer electronics.

Now, Japanese banks are wary about making new loans or renewing old ones. "Basically, they're gone, on the sidelines," said an executive at an American bank in charge of making syndicated loans to corporations who spoke on condition of anonymity.

Japanese banks accounted for less than 10 percent of the syndicated loans provided to U.S. companies with investment-grade credit ratings in the first quarter of 1998, down from 26 percent in the comparable quarter a year earlier, according to Loan Pricing Corp., a market research firm in New York.

Japanese banks either are pulling out of the United States altogether or are

consolidating operations in New York. The number of Japanese banks with offices in New York has fallen to 55 from 70 in the past few years, according to a compilation made in February by Yomiuri Shimbun, a Japanese newspaper. The number with offices in Los Angeles has dropped to 17 from 25, and in Chicago to 16 from 21.

Some Japanese banks are also selling part of their U.S. operations.

Fuji Bank raised about \$1 billion by selling a minority stake in Heller Financial Inc., a finance company in Chicago, in an initial public offering at the end of April. In March, Sumitomo Bank sold SunTrust Bank of California, Zions Bancorp of Utah for \$546 million.

It also sold off pieces and shut down the rest of its operation that made loans to small and medium-sized businesses.

The Japanese banking crisis is also accelerating the sale of Japanese-owned hotels, office buildings and golf courses in the United States, many of which were bought at exorbitant prices in the late 1980s. Nikko Securities Co., for instance, just agreed to sell the Watergate Hotel in Washington to the Blackstone Group for \$39 million.

"It's like a fire sale," said Shunhei Okada, president of Mitsui Fudosan USA, the U.S. arm of a Japanese real estate company. "They have to sell, especially when the bank presses the

borrowers who own the property to sell and repay the money."

The sharp retreat from lending by Japanese banks has contributed to a modest increase in interest rates paid by U.S. corporate borrowers, bankers and analysts said. Some big financings have taken longer to arrange.

But by large, the retreat from the U.S. market by the Japanese banks has had little effect on the U.S. economy because there are many other sources of credit for companies. This contrasts sharply to the situation in Japan and in other parts of Asia, where cutbacks in lending by Japanese banks have contributed to a credit crunch that has driven some companies into bankruptcy and worsened economic downturns.

In the United States, the pullback from lending by Japanese banks has been counterbalanced by financial deregulation in Japan, which has made it easier for Japanese to invest overseas. With the dollar strong and interest rates higher in the United States than in Japan, Japanese money has moved into U.S. stocks, bonds and banks, helping keep interest rates low and stocks high.

One big fear has not materialized: that the crisis would force Japanese government and financial institutions to sell off their U.S. Treasury bonds, causing U.S. interest rates to rise and slowing the economy. A hint of such a sale by

Prime Minister Ryutaro Hashimoto of Japan caused the U.S. stock markets to plunge one day last year.

But Treasury bonds are proving attractive to Japanese and other foreign investors because they pay higher interest rates compared with similar securities in Japan.

The most important effect of the Japanese banking crisis on the United States is likely to come not from cutbacks by Japanese banks in the United States but more indirectly. The banking crisis is helping plunge Japan into recession, which hurts U.S. exports and also is making it difficult for the rest of Asia to recover.

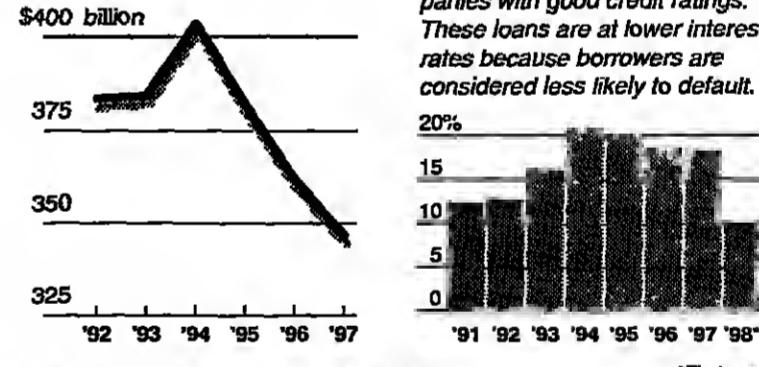
Thus far, the most obvious effect in the United States is the less lending by Japanese banks. Banks by at least \$600 billion in problem loans, mainly on Japanese real estate, Japanese banks are struggling to maintain capital levels equal to 8 percent of assets, a requirement for international banks. With their capital eroding from loan losses and the weak Japanese stock market, the banks are having to reduce assets, which generally means loans.

In the United States, assets held by Japanese-owned bank branches dropped to \$347 billion at the end of 1997 from \$404 billion at the end of 1994, according to the Federal Reserve.

Without a big base of dollar-denomina-

Japanese Banks Pull Back

Assets of Japanese banks in the United States.



inated deposits, Japanese banks and other finance companies generally borrow from other banks to obtain the money they then lend out in the United States. But because of fears about the health of the Japanese banking system, Japanese banks have had to pay higher rates for this borrowed money than U.S. or European banks do.

The Japanese banks pulling out of the U.S. market so far have been mainly smaller, regional banks.

The head of the Los Angeles office of a big Japanese bank said that with fewer loans being made, decision-making was being concentrated in New York.

The bank's outstanding loans in the

United States have fallen to about \$40 billion from \$72 billion a few years ago, he said. This week, Sanwa said it would liquidate Sanwa Securities (USA) Co. and refocus its investment banking activities on the more profitable derivatives business.

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Hong Kong Tracks Increase in Cases of Graft

By Joshua Feltman
Bloomberg News

HONG KONG — In the run-up to Hong Kong's return to Chinese rule last year, many warned that corruption and cronyism would quickly engulf the former British colony.

With Communist cadres and Beijing bureaucrats calling the shots, the doomsayers warned, the territory would struggle to maintain its reputation as one of Asia's cleanest cities.

Twelve months later, the Independent Commission Against Corruption in Hong Kong said graft reports rose 24 percent in the first half of this year — but capitalism, not communism, was to blame.

Some members of the commission — and many others here — blame this apparent increase in graft on rising unemployment, a tumbling stock market and an economy that is sliding into recession.

"The economy strikes me as a better explanation than the change in leadership in Hong Kong," said Mac Overton, a fund manager with MBF Asia

Capital Ltd.

But some analysts say an increase in corruption reports does not necessarily mean an increase in graft.

"We believe the economic downturn has a direct bearing on the increase in reports," a commission spokesman said. "Management and staff appeared to be much more prepared to report corruption to protect their own interests as profits dwindled."

In the past year, four small local brokerages collapsed amid allegations of misconduct; a senior customs officer was nabbed for tipping off people about to be raided; a former managing director of Rockefeller & Co. (Far East) Ltd. was charged in a \$7.5 million bribe scandal; and a leading local newspaper was found to have inflated circulation figures.

At the same, Hong Kong has been shaken by an economic slowdown across the region. The territory's economy shrank 2 percent in the first quarter, unemployment is running at a 14-year-high of 4.2 percent and retail sales and tourist arrivals are tumbling. In this more competitive environment, compa-

nies are less willing to put up with secret commissions, kickbacks and other illegal practices, the commission said.

In the first half of this year, 1,780 complaints were made to the commission — a 1,200-strong body that has police-like powers to search for corruption in government and industry.

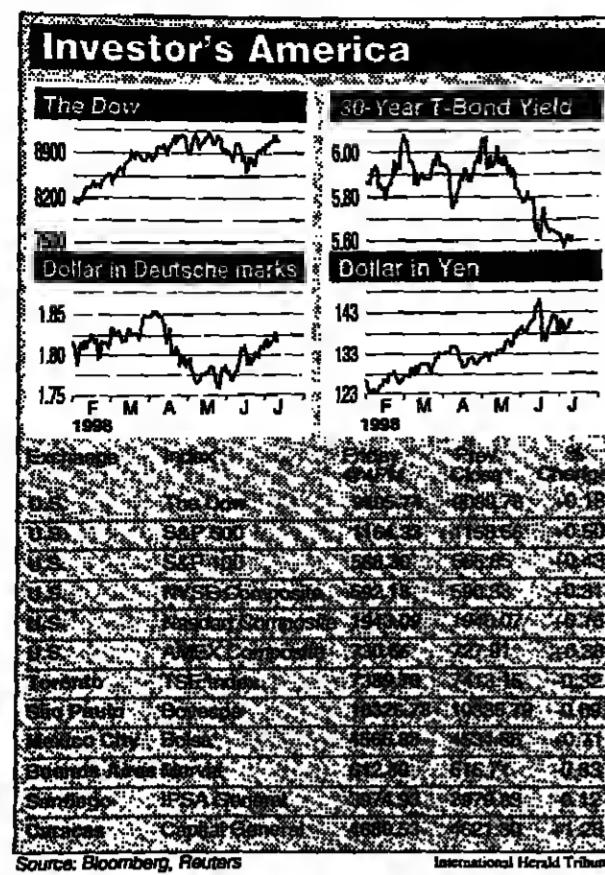
Complaints against the private sector rose 23.6 percent to 909. Corruption allegations against the police rose to 295 from 243 during the first six months of the year, while complaints against other government departments also rose.

Still, the country with Asia's second-largest stock market and the world's fifth-largest banking center is eager to keep its reputation as one of Asia's cleanest cities for doing business.

Within the past two years, a number of executives have been charged, including people linked to Sing Tao Holdings Ltd. and C.A. Pacific Group, a securities brokerage that is partly owned by Capital Asia Ltd. And a senior officer at the Customs Department was arrested by the commission after telling copyright pirates when they would be raided.

CURRENCY & INTEREST RATES

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Beware of Baiting Big Board

Customers Are Winning Less Often in Feuds With Exchange

By Gretchen Morgenson
New York Times Service

NEW YORK — The New York Stock Exchange may be the market of choice for investors who want the best execution of their securities trades. But Jonathan Kord Lagemann, a securities lawyer in New York, says those lodging complaints against their brokers appear less likely to succeed at the exchange's arbitration department.

He bases his conclusion on the results of customer arbitration cases filed at nine self-regulatory securities organizations since 1980. Mr. Lagemann found that the percentage of arbitration hearings held by regulators at the Big Board that led to awards for customers fell to 41.4 percent last year from 51.3 percent in 1990.

The trend is the opposite at the biggest American self-regulatory organization, the National Association of Securities Dealers, which

operates the Nasdaq market. Last year, 58.4 percent of the customers who brought complaints against brokerages there won something. In 1990, 54 percent did.

Mr. Lagemann recently pointed out this widening gap between the two exchanges in a letter to the Securities and Exchange Commission.

Chris Ullman, a spokesman for the commission, said: "While statistics can tell different stories, this has piqued our interest, and we are going to look into it."

The arbitration information that Mr. Lagemann consulted goes back to 1980 and was compiled by the Securities Industry Conference on Arbitration, a rule-making body formed at the Securities and Exchange Commission's behest in 1976. It includes customer cases that went before the New York Stock Exchange, the American Stock Exchange, the National Association of Securities Dealers, as well as the regional exchanges and the Municipal

Securities Rulemaking Board. A total of 6,665 arbitration cases were filed by customers against their brokerage firms last year. The bulk of the cases — 90 percent, or 5,997 — went to regulators at the National Association of Securities Dealers. A distant second was the New York Stock Exchange, which received 546.

Like most securities lawyers contacted for this article, Mr. Lagemann gives the New York Stock Exchange high marks for efficiency and staff professionalism in its handling of arbitration cases. "In all respects other than the win rates, arbitrating at the New York Stock Exchange is far preferable," Mr. Lagemann said.

James Buck, senior vice president and secretary of the New York Stock Exchange, said that the question should not be why the Big Board has lower victory rates, but why the National Association of Securities Dealers has higher rates.

Very briefly:

• Boeing Co. raised base prices on most commercial jet models by 5 percent, effective July 1. It was the first increase in base prices since 1975, except for annual adjustments for inflation.

• United Parcel Service of America Inc., the world's largest package delivery company, told the Teamsters union it would not create 2,000 full-time jobs as promised last year in settlement that ended a national strike. The company cited an escape clause eliminating the commitment if shipments failed to return to pre-strike levels.

• Wells Fargo & Co. reversed an earlier decision to cut off its customers who use Apple Computers Inc. machines to access their Wells accounts. The earlier move would have affected only 7,000 users, or 1 percent of the bank's on-line banking customers, but many of them reacted unhappily, the bank said.

• The E.W. Scripps Co.'s second-quarter earnings fell slightly on acquisition costs, a weak performance from its broadcast television group and weak revenue from newspapers. Scripps earned \$36.4 million, or 45 cents per diluted share, in the quarter ended June 30, up from \$38.6 million, or 47 cents per share, a year ago.

• Laidlaw Inc., North America's largest provider of passenger-bus and ambulance services, will fire 700 employees from its health-care services unit by the end of August to reduce costs.

• i*Trade Group Inc. will get a \$400 million investment from Softbank Corp., which will give the Japanese software company a 27.2 percent stake in the company.

• Zapata Corp., the fish oil and packaging company that formed a new business to focus on the Internet, said it would buy closely held CoolChat Inc., which has an on-line discussion area with 300,000 members.

• Chancellor Media Corp. will buy 50 percent of Grupo Radio Centro SA, Mexico's biggest radio broadcaster, for \$237 million in cash and stock. AP, Bloomberg, Reuters

Dollar Slips as Russia Worries Ease

Bloomberg Business News

NEW YORK — The dollar fell against the Deutsche mark Friday on expectations for the International Monetary Fund to soon grant an emergency loan to Russia, allaying investors' concern about Germany, Russia's biggest lender and trading partner.

"Negative developments in Russia spill over into Germany more than any other country," said Ivar Bjornstad, treasurer in charge of foreign exchange at Den norske Bank. "One tends to sell marks when things look

hairy in Russia, and to buy them when things there calm down."

The dollar fell to 1.8165 Deutsche marks in 4 P.M. trading from 1.8285 DM on Thursday. It fell

to 6,0923 French francs from 6,1290 francs and to 1,5380 Swiss francs from 1,5415 francs. The pound rose to \$1.6330 from 1,6317.

"Russia is too big to let it fail by

the IMF not doing anything," said Alan Yau, a fund manager at Fi-

nancial Trust International Ltd. "The IMF should come in with a refinancing package for Russia and then we will see the Deutsche mark back at 1.80."

Russia must make debt payments of more than \$1 billion a week and about \$30 billion this year, and its central bank reserves have fallen to about \$15 billion. Some economists say Russia may devalue its currency to help it meet ruble-denominated debt. Such a move is likely to drag down the mark further.

The mark was also weighed down by expectations that interest rates would not be raised any time soon in Germany. Consumer prices rose only 0.1 percent in June in Germany, a report Friday showed, slowing from a 0.3 percent gain the previous month.

"There's an underlying feeling that Germany is going to hold the line on rates," said Rich Porter, manager of foreign-exchange sales at Kreidelsbank.

The dollar slipped against the yen amid speculation that Japan may soon propose permanent income-tax cuts that are seen as vital to spurring consumer demand and easing the nation's economy out of a recession.

The dollar fell to 141.07 yen from 141.13 yen Thursday.

Wal-Mart Buys Stake in Korean Stores

Bloomberg Business News

BENTONVILLE, Arkansas — Wal-Mart Stores Inc. said Friday that it acquired a majority interest in four stores and six sites in South Korea, continuing its international expansion in an economically depressed region of the world.

Terms were not disclosed.

Wal-Mart, the world's largest retailer, is buying the stake in three stores in Seoul and one in Taicjon previously operated by Korea Makro. The store had sales last year of more than \$160 million.

Wal-Mart continues to be an important part of our long-term growth strategy, and Korea is an example where well-thought-out, carefully timed opportunities exist in the region," said Bob Martin, chief executive of Wal-Mart's international operations.

The Trib Index									
Prices as of 3:00 P.M. New York time.									
Jan. 1, 1992 = 100	Level	Change	% change	Year to date	% change	High	Low	Last	Chg.
World Index	200.55	+ 0.07	+ 0.03	+ 16.52					
Regional Indices									
Asia/Pacific	83.62	- 1.74	- 2.04	- 12.96					
Europe	239.54	- 0.27	- 0.11	+ 24.14					
N. America	263.03	+ 1.95	+ 0.75	+ 21.78					
S. America	135.16	+ 0.82	+ 0.61	+ 11.47					
Industrial Indices									
Capital goods	202.66	+ 0.38	+ 0.15	+ 27.15					
Consumer goods	226.91	+ 0.09	+ 0.04	+ 12.96					
Energy	207.24	- 0.41	- 0.20	+ 6.30					
Finances	146.68	+ 0.25	+ 0.17	+ 19.28					
Miscellaneous	155.23	- 2.51	- 1.58	+ 4.28					
Raw Materials	202.77	- 1.94	- 0.85	+ 21.24					
Service	210.91	+ 0.66	+ 0.31	+ 21.00					
Utilities	170.32	- 0.37	- 0.22	+ 2.07					

The International Herald Tribune World Stock Index of stocks the U.S. dollar value of 250 internationally investable stocks from 25 countries. Compiled by Bloomberg News.

U. S. STOCK MARKET DIARY

Indices

Most Actives

July 10, 1998

High Low Last Chg. Chg. Opt.

NYSE

High Low Last Chg. Chg. Opt.

Nasdaq

High Low Last Chg. Chg. Opt.

Nasdaq

High Low Last Chg. Chg. Opt.

AMEX

A Struggle For Power At Telecom

Compiled by Our Staff From Dispatches

MILAN — The boardroom battle between two of Telecom Italia SpA's top executives heated up Friday, with the chairman demanding the resignation of the head of its cellular telephone services company.

Chairman Gianni Mario Rossignolo asked Vito Gamberale, the chairman of Telecom Italia Mobile SpA, to leave. The mobile division is the most profitable unit of Telecom Italia.

Mr. Gamberale said he was unaware of the request for his resignation but said he expected the company's board on Friday to approve Mr. Rossignolo's recommendation for his ouster.

Instead, the board created an executive management committee in a move that analysts said was designed to limit Mr. Rossignolo's power. It left Mr. Gamberale's future undecided.

The stand-off between the two executives is the latest episode in a power struggle that has enveloped Telecom Italia since its privatization last year and Mr. Rossignolo's appointment as chairman in February.

"I am beginning to wonder about the management ability of Rossignolo," said Geoffrey Triman, a fund manager at Talisman Capital. "He seems to be doing a lot of reshuffling and realignment of management with us clearly articulated plans."

Mr. Gamberale and Mr. Rossignolo had fallen out over the structure of management. Mr. Rossignolo emerged from a shareholders' meeting in June saying the management structure "would not change an inch."

Mr. Rossignolo has in the past six months cut back on two of the company's biggest investment projects, quashed a sale of cable maker Sirti SpA to Pirelli SpA, pushed out top management and trashed a planned partnership with AT&T Corp.

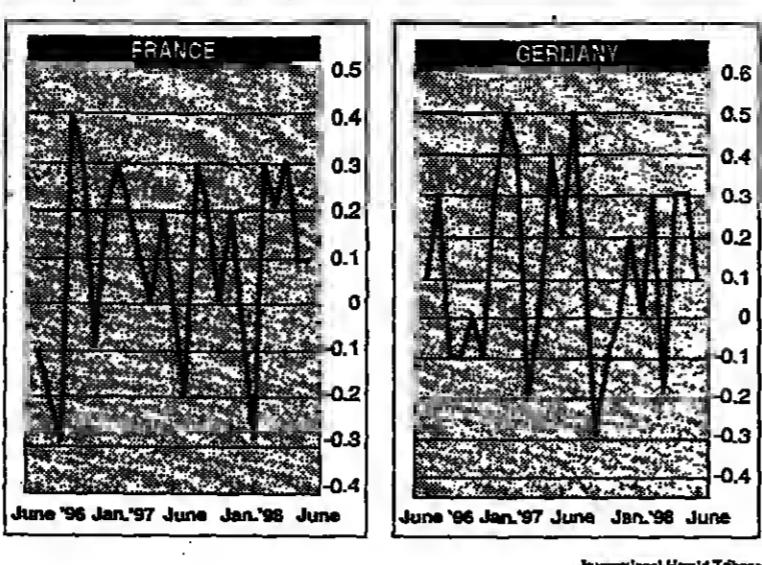
Mr. Gamberale was appointed director-general of telephone and cellular operations by Mr. Rossignolo at the end of April. He was simultaneously promoted to chairman of Telecom Italia Mobile, where he was previously chief executive officer.

(Bloomberg, Reuters)

Europe's Persistent Low Inflation

Consumer price inflation remains tame in France and Germany, the European Union's two largest economies. The monthly percentage increase for June in their respective consumer price indexes was 0.1 percent.

Source: Bloomberg



GEC Merges Defense Unit With Italian State Firm

Bloomberg News

LONDON — General Electric Co. of Britain and Italy's state-owned Finmeccanica SpA have merged parts of their defense electronics units into a new business with sales of \$1.6 billion, speeding a shakeout in Europe's defense industry.

The joint venture agreement, signed Thursday, brings together businesses from GEC-Marconi Ltd., GEC's defense unit, and Alenia, Finmeccanica's defense business, and will be run by Peter Brown of GEC-Marconi's Radar & Defense Systems unit.

The creation of Alenia Marconi Systems N.V. comes as Europe's weapons industry seeks to match a wave of U.S. mergers. The U.S. linkups have produced companies such as Lockheed Martin Corp. and Boeing Co., powerful rivals for contracts because of their lean cost structures and large research budgets.

"It will be difficult to raise rates when inflation is clearly absent," said Ian Hatzis, economist at Goldman, Sachs & Co.

But some countries adopting the euro may find it difficult to live with interest rates as low as those in Germany and France. In Ireland, the inflation rate climbed to a six-year high of 2.9 percent in June. Cutting the country's 6.75 percent benchmark interest rate could fuel further inflation.

As Europe prepares for the single currency, it is getting help from Asia in keeping inflation under control. The slide in Asian currencies has reduced the cost of imports from that region. (Reuters, Bloomberg)

Prices Tame in France and Germany

Compiled by Our Staff From Dispatches

FRANKFURT — Inflation remained tame in France and Germany in June, confirming the absence of price pressures in the euro zone. But the data, released Friday, did not put to rest a stem warning on budgets given by central bankers this week.

Consumer prices in both countries rose 0.1 percent in June, with the annualized inflation rate at 1.0 percent in France and 1.2 percent in Germany.

The figures follow upbeat assessments of the near-term inflation outlook given by Wim Duisenberg, president of the European Central Bank, and Hans Tietmeyer, president of the central bank of Germany. Both said this week that there were no signs of accelerating inflation but warned that some of the 11 countries scheduled to adopt the single currency were beginning to relax their budget discipline, and that this could eventually stoke inflationary pressures.

Mr. Tietmeyer said Thursday that the Bundesbank might need to increase interest rates this year if some of Germany's fellow members of the euro zone failed to tighten their fiscal policies.

His comments came after Mr. Duisenberg said on Wednesday that he had presented a "yellow card" — the soccer term for a warning to players — to European finance ministers because some were failing to meet pledges to cut budget deficits.

Mr. Duisenberg said Europe was on course for continued low inflation. But he added that with economic growth picking up, the 11 euro nations should devote the "growth dividend" resulting from higher tax revenues to reducing deficits and debt levels.

Interest rates still differ widely in the 11 countries and must converge ahead of the introduction of the euro, when the European Central Bank will set one interest rate for the entire currency area.

The Bundesbank and the Bank of France left interest rates unchanged Thursday. Several Bundesbank officials have said they do not think that a German rate rise will be necessary over the summer.

"It will be difficult to raise rates when inflation is clearly absent," said Ian Hatzis, economist at Goldman, Sachs & Co.

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As Europe prepares for the single currency, it is getting help from Asia in keeping inflation under control. The slide in Asian currencies has reduced the cost of imports from that region. (Reuters, Bloomberg)

VW Aims to Add 11,000 Jobs in Wolfsburg

Reuters

WOLFSBURG, Germany — Volkswagen AG said Friday it hoped to create up to 11,000 jobs in Wolfsburg, where the carmaker started 60 years ago, by building new service facilities.

A central suppliers' facility will provide 1,400 to 1,800 jobs, VW

said. The project, called Autovision, is intended to strengthen ties between VW and its suppliers.

VW said it would invest about 20 million Deutsche marks (\$11 million) in the project by the end of 1999. Suppliers who move activities to Wolfsburg will obtain infrastructure benefits and have access to fi-

nancial support. So far, about 80 suppliers have shown interest, VW's personnel chief, Peter Hartz, said.

Also planned are an innovation campus to aid local businesses, a future park, and a job training and placement center. Wolfsburg has a population of about 130,000. VW employs 47,000 people in the Wolfsburg area.

On Friday, the ministers said such a company should be run "on a commercial basis by a single management structure, should have access to the private capital market and be listed on the stock exchange and should not be dominated by any individual shareholder."

Still, there may be many obstacles to the plan if Airbus is used as a model. After years of talks, partners in the 26-year-old group are only just getting around to bringing assets under one umbrella to create one entity and have already said they will not meet their Jan. 1, 1999, deadline.

WORLD STOCK MARKETS

Friday, July 10

Daily rates in local currencies.

Tobacco

High Low Close Prev.

Amsterdam AEX Index 1240.46

Prev. 1240.46

Frankfurt DAX 3962.42

Prev. 3962.42

Johannesburg All Market 711.41

Prev. 711.41

Kuala Lumpur Composite Index 428.57

Prev. 428.57

London FTSE 100 Index 4245.26

Prev. 4245.26

Paris CAC 40 4300

Prev. 4300

Tokyo Nikkei 225 16990.00

Prev. 16990.00

Toronto TSE Industrial 7384.15

Prev. 7384.15

Tokyo Nikkei 225 16990.00

Prev. 16990.00

Tokyo Nikkei 225

PT Freeport On Defensive

Bloomberg Business News

JAKARTA — Indonesia's biggest taxpayer, the giant mining corporation PT Freeport Indonesia, denied Friday it had received special treatment from former President Suharto. It also warned that its profit would fall this year because of falling metals prices.

Adrianto Machiribie, the company's president-director, dismissed persistent allegations in the local press of corrupt practices by Freeport.

The Indonesian company is a unit of Freeport-McMoRan Copper & Gold Inc. of the United States.

Freeport Indonesia will be "less profitable in 1998 than it was in 1997," said Steve Jones, the executive vice president.



Adrianto Machiribie, president-director of PT Freeport Indonesia, denying to reporters on Friday that his mining company profited from connections with former President Suharto.

Mazda May Join Ford in Bid for Kia

Compiled by Our Staff From Dispatches

TOKYO — Mazda Motor Corp., Japan's fifth-largest automaker, said Friday it was considering joining its parent Ford Motor Co. in a bid for a controlling stake in South Korea's Kia Motors Corp.

"Mazda is studying the possibility of participating in the international bidding for Kia in collaboration with Ford," Mazda said.

Kia, South Korea's third-largest automaker, will be auctioned next week by Korea Development Bank — Kia's biggest creditor — along with its truck-making affiliate, Asia Motors Co. The sale will reshape the world's fifth-largest auto industry and test the country's ability to attract foreign investment.

Three other South Korean carmakers — Hyundai Motor Co., Daewoo Motor Co. and Samsung Motors Co. — have said they also would bid for Kia. But Kia has suggested

Ford would be the best buyer.

Lee Kuan-Young, the governor of the Korea Development Bank, welcomed any qualified South Korean and foreign buyers, including Ford, which, along with Mazda, holds a 16.9-percent stake in Kia.

Both Ford and Mazda, in which Ford has a 33.4 percent stake, declined to comment on a Friday report in the daily Nihon Keizai Shimbun that they are thinking about asking Itochu Corp., one of Japan's biggest trading companies, join them in a bid.

"We haven't been asked" to join the bidding, said Takehiko Kigure, an Itochu spokesman. "If we do get a request to join in, we will consider it at that time."

The sale of Kia is central to South Korea's effort to find solutions for a series of insolvent companies that helped push the country into its first recession in 18 years.

More details on the public tender of Kia, which is now under court receivership, will be conveyed to potential bidders on Wednesday.

The Korea Development Bank said it will take bids from July 27 until mid-August with an aim to complete the sale of Kia by the end of August.

For Ford, taking control of Kia would boost sales and output in Korea and ensure continued supply of Kia-made vehicles such as the subcompact Aspire sedan.

The U.S. automaker, however, is balked at increasing its stake because of Kia's debt. The automaker, which filed for bankruptcy a year ago, had 8.75 trillion won (\$6.6 billion) of debt at the end of March and 7.72 trillion won of assets.

To facilitate the sale, the Korea Development Bank has said it may cut Kia's share capital to write off debt and sell about 1 trillion won of new shares.

(Bloomberg, AFP)

Korea Unions Talk Tough on Job Security

Compiled by Our Staff From Dispatches

SEOUL — The two main South Korean labor union groups said Friday that they would stage a massive rally in Seoul on Sunday and withdraw from talks with the government and business unless they received guarantees on job security.

The Federation of Korean Trade Unions and the Korea Confederation of Trade Unions said they expected 200,000 members to attend the rally.

"The government-sponsored labor talks have become meaningless," the groups said in a joint statement.

The two groups, usually rivals, were forced to join hands after their key unions in the auto and banking industries faced mass layoffs under the government's plans to restructure the battered economy.

The groups plan to begin a strike on Tuesday at auto plants, 37 banks and 11 state-owned companies. The

state-owned companies are being put up for sale under the government's privatization program.

The 26,000-member Hyundai Motor Co. union said it would take part in the strike. Hyundai, the biggest automaker in the country, already has been hit hard by intermittent walkouts. Hyundai shed about 5,000 workers in June, and it is pushing to lay off 4,300 more this month.

(Bloomberg, AP)

AMAZON: New Selling Script

Continued from Page 11

time," Mr. Bezos said. "If you can save people money and time, they'll like that."

No wonder the dwindling numbers of small booksellers feel threatened. At their convention in Chicago at the end of May, there was urgent talk and real fear about the peril presented by Amazon.

"Amazon has hit us harder than the superstores did," said Carla Cohen of Politics & Prose, an independent in Washington. "It can advertise and discount and lose money at the same time. In the real world, most of us would be out of business if we did that."

Because Amazon is virtual, it does not have many of the fixed costs for real estate and employees do. Another advantage is that it does not have to order most books from publishers or wholesalers until a customer actually wants them. A bookseller has to do things the opposite way: It orders a stack of books and hopes customers will want them. If they do not, the books get sent back to the publisher, an expensive process for everyone.

This is the sort of thing that makes some publishers who have been printing 10 books to sell 5, widely hopeful about the on-line world.

On-line booksellers are "the future of publishing," said Jason Epstein, the long-time Random House editor, who in the 1980s developed a project called the Reader's Catalog, which listed hundreds of thousands of books that could be centrally ordered. It was a forerunner of Amazon, but it founders without the ease of computer searching and ordering.

The present system is extremely inefficient, especially for the more specialized kind of book that can't easily be identified or categorized by the chain stores' computers," Mr. Epstein added. "It's increasingly difficult to publish those books, because it's hard to put them in the hands of their potential readers. As the Internet evolves, it will begin to solve that problem."

As a company, Amazon owns almost nothing — no buildings, no factories, few other assets in the traditional sense. Yet the stock keeps zooming. Some analysts think that the real way Amazon will justify its \$4.9 billion stock valuation is not by selling

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DO YOU LIVE IN THE U.K.?

Asian Stocks Tumble

Japan Economic Concerns Trigger Slide

Compiled by Our Staff From Dispatches

HONG KONG — A slide in Japan's stock market triggered a sell-off across Asia on Friday as fears grew that a tumbling yen would trigger another round of financial chaos in the region.

Japan's benchmark Nikkei-225 stock average closed down 2.2 percent, at 16,090.05 points, after a leader of the ruling party said income taxes would be reduced by 60 million yen (about \$42.6 billion) next year.

"It simply isn't enough," said Kazunori Shimono, a manager at Ryoko Securities Co.'s futures and options sections. "With social insurance premiums scheduled to be raised next year, the market is looking at a net increase in the national tax burden."

Investors were also concerned that the ruling Liberal Democratic Party could fail to win new seats in an election for the upper house of Parliament on Sunday.

The markets were looking to the election to gauge Prime Minister Ryutaro Hashimoto's chances of strengthening his position as he deals with a recession-hit economy.

The election is for half of the 252 seats in the upper house of Parliament. The LDP holds 118 seats in the chamber, of which 61 are up for election.

Many stock strategists said they expected the party would be able to hang on to that number of seats but added that if it were to lose any, the resulting political turmoil could hurt the market, at least temporarily.

Japan's failure to take stronger steps to reform its economy, Asia's biggest, heightened concern the rest of the region would remain mired in recession. That seat stocks in Hong Kong, Taiwan, South Korea, Singapore, Malaysia, Indonesia, Australia and the Philippines tumbled.

"Most international fund managers are avoiding Asia, their emphasis now is on Europe," said Charles Lamb, a fund manager for MeesPierson Asia Ltd. in Hong Kong.

In Hong Kong, stocks suffered their biggest drop in three weeks as a weak yen drove borrowing costs higher, hurting banks and developers. The Hang Seng Index dropped 2.7 percent, to 8,205.77.

South Korea's benchmark index fell 3.1 percent, to 309.28 points, on concerns that escalating labor strife and the yen's decline would further hurt South Korean exports.

Malaysia's benchmark stock index fell 4.3 percent, to 428.62, with

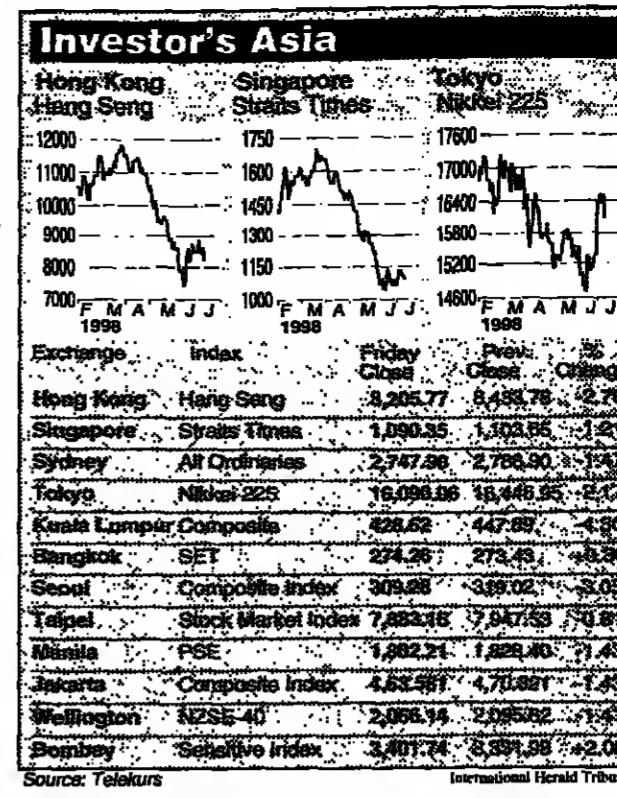
banks and property stocks falling as the ringgit slid against the dollar and concern mounted about the extent of Malaysian companies' debt problems.

"If the currency continues tanking, I don't think you're going to see much of a recovery," said Lai Tak Heong, the head of Malaysian research at SG Research in Kuala Lumpur.

Indonesia's political uncertainty weighed on the stock market. The benchmark Jakarta Composite Index fell 1.4 percent, to 463.58, amid concern the government's political power base could fragment, undermining the rupiah and eroding the value of stocks.

"What investors are waiting for is a return to political stability," said Derrick Lee Hong Peng, an analyst at MCM Asia Pacific in Singapore. "Without this, it is almost impossible for the rupiah to recover."

(Bloomberg, AFP)



Source: Telekurs

International Herald Tribune

Thailand Gets Added Loans

The Associated Press

BANGKOK — The World Bank has approved \$700 million in loans to Thailand — nearly half of it for easing the effects of the country's economic crisis on the poor — and plans to increase its lending to help the country cope with a credit crunch and deepening recession.

The newly approved loans, announced in Bangkok Friday after being approved at the bank's headquarters in Washington late Thursday, are part of the contribution the bank pledged toward a \$17.2 billion bailout fund organized by the International Monetary Fund.

In Washington, a bank official said the international lending organization intends to increase its aid to Thailand to \$2.1 billion from the originally planned \$1.5 billion.

Thailand's once-booming economy ground to a halt last year when the financial sector faced liquidity problems that exposed massive debts.

Unemployment is rising, with more than 2 million expected to be jobless in 1998, an increase of more than 60 percent from a year earlier.

Ailing financial institutions have generally failed to attract new capital needed to overcome the shortage of operating funds caused by large holdings of bad debt. So they are reluctant to roll over debt or make new loans.

Very briefly:

• Hyundai Motor Co. of South Korea plans to begin a fourth early retirement program on Monday as part of the carmaker's push to cut its original 45,000-strong work force by a fifth.

• Nippon Telegraph & Telephone Corp. will post a special loss of 41 billion yen (\$293 million) in 1997-

NASDAQ

Friday's 4 P.M.
The 1,000 most traded National Market securities
in terms of dollar value, updated twice a year.
The Associated Press.

NYSE

Friday's 4 P.M. Close
(Continued)

12 Month Stock				DIV	Yld	PE	Sales	EPS	High	Low	Latest	Chg
18% 17 NNYQ	1.03	5.5	4		113	17%	1734	1759	+1			
10% 9% NNYMV	.526	5.5			154	9%	919	934	+1			
17% 15% NYNYC	.526	5.5			82	16%	1636	1644	+1			
19% 16% NYHQI	.97	5.5			105	18%	1836	1872	+1			
18% 15% NYHPI	.526	5.5			95	18%	1749	1781	+1			
14% 12% NYHPF	.24	5.4			258	13%	1334	1379	+1			
15% 12% NYHPG	.94	4.3			121	14%	1499	1514	+1			
15% 12% NYHPM	.90	5.4			177	16%	1674	1686	+1			
15% 12% NYPNP	.59	5.5			460	15%	1495	1515	+1			
16% 12% NYPNP2	.734	9.3			455	16%	1636	1676	+1			
16% 12% NYPNP4	.82	5.4			820	17%	1492	1546	+1			
17% 15% NYPNP6	1.01	6.1			233	26%	1505	1584	+1			
16% 15% NyNrel	.95	5.5			365	16%	1674	1704	+1			
16% 14% NSTF2R	.07	6.8			66	15%	1529	1556	+1			
13% 13% NSTF3D	.83	9.8			154	15%	1546	1546	+1			
41% 14% NYQ	1.23	5.5			505	15%	1494	1494	+1			
23% 22% NYQ Er	1.13	12			17	17%	2679	2700	+1			
46% 34% NYQG	.36	9.9			21	1154	3391	3614	+2			
55% 49% NYQH Co #					224	8%	714	716	+1			
27% 24% OAKDinks					25	1120	408	311	-37%			
15% 8% Oakley					45	564	1474	1340	-13%			
24% 23% Oakwood	.04	1			36	1214	2179	3071	-31%			
30% 21% OakPet	1.00	19			66	3950	2579	2540	-2%			
30% 15% Oceanair R					58	5878	1486	6154	-16%			
27% 15% Oceanair					18	598	1742	1546	-16%			
2.5% 1.7% Octel S					-11	1110	1546	1454	-16%			
24% 15% Octenair All 37e	.81				14	1644	1644	1644	+1			
30% 16% Octenair H					24	2492	2634	2626	-2%			
37% 14% OctDrp					34	7638	3030	3574	-36			
19% 11% Octenair Max					23	2263	1699	1696	-16%			
32% 20% Octenair S	1.25	45			14	589	2717	2654	-27%			
26% 18% Octenair St 2.25					83	2550	2550	2550	+1			
18% 12% OldBn	.33	20			22	1245	1419	1414	-1			
20% 22% OldRep S	.405	16			16	1763	3114	3074	-30%			
21% 32% OldBn	1.20	11			14	457	3919	3816	-38%			
23% 10% Olden	.28	27			9	1000	1812	1616	-18%			
40% 37% OmegaH2.66	.76	16			95	2534	3574	3536	-33%			
39% 24% Omnicare	.08	2			185	3887	2424	2424	-24%			
56% 21% Oncom	.50	9			69	6041	5509	5244	-25%			
41% 21% OneVab S	.044	23			10	5100	5509	5244	-25%			
32% 17% ONEB	.50	10			16	2264	2264	2274	+1			
44% 31% ONEOK	1.30	21			16	2264	2264	2274	+1			
15% 10% Optiplus					78	302	1094	1094	+10%			
54% 33% Optiplus C	2.58	47			21	158.55	5474	5474	+1			
81% 51% Optiplus Cu					64	81	916	6	-6%			
55% 31% Optiplus G					45	457	554	554	+5%			
55% 14% Optiplus3d					49	1970	2440	3554	-25%			
39% 14% Oracle	.50	3.1			73	441	1855	1816	-18%			
44% 22% OrientFin S	.50	15			95	374	374	374	+1			
50% 37% OrionCap	.721	15			12	471	5509	5244	-25%			
24% 15% Orionfin					36	529	2264	2274	+1			
30% 24% Orrx					21	1993	2264	2274	+1			
26% 19% Oceasol S					25	2264	2264	2274	+1			
19% 10% OceansM	.40	20			23	202	1996	1996	+1			
29% 14% OceansM					23	354	3314	11	-11%			
54% 30% OceansS	.45	45			15	157	539	5244	-25%			
44% 27% OceansS	.50	7			48	428	4279	4174	-10%			
30% 27% Oxford	.50	23			76	35-1	35-1	35-1	-35%			

P-Q-R

2624	52%	PECO DIZZ 25	87	16	487	52%	211%	311	311	311
3374	22%	PGLC CIC 1.30	83	16	46	47	211%	311	311	311
1594	71%	PHP	64	64	545	71%	71%	71%	71%	71%
8554	54%	PML Gp	20	3	545	54%	73%	74%	74%	74%
6554	41%	PML	16	3	5504	55%	57%	57%	57%	57%
2494	100%	PMLL Res	167	73	13	5704	22%	22%	22%	22%
2494	100%	PPLR	193	73	13	5704	22%	25%	25%	25%
7514	52%	PPG	1,440	21	17	3475	48%	67%	68%	68%
2554	25%	PSCO DIC 1.90	74	16	570	25%	25%	25%	25%	25%
2414	25%	PWIC C p 2.08	87	16	137	25%	25%	25%	25%	25%
1494	15%	PwCAS	1,182	72	16	95	14%	16%	16%	16%
2564	25%	PwCtas	65	28	11	110	25%	25%	25%	25%
2494	25%	PwCtg	1,488	72	16	521	25%	25%	25%	25%
2614	25%	PwCT p 1.24	249	72	16	521	25%	25%	25%	25%
2714	23%	PwCTT	1,200	82	16	521	26%	26%	26%	26%
2794	23%	PwD	1,200	82	16	1232002	21%	21%	21%	21%
4994	22%	PwDWeb	8,40	58	18	3824	49%	49%	49%	49%
74	5%	PwDw	1,000	58	18	200	21%	21%	21%	21%
2294	15%	PwDw	42	21	18	4028	20%	19%	19%	19%
2294	15%	PwDw	42	21	18	92	21%	21%	21%	21%
2294	15%	PwDw	42	21	18	1793	21%	21%	21%	21%
4144	25%	PwDw	1,200	72	16	521	25%	25%	25%	25%
13	5%	PwTch	-	-	1	1	521	52%	52%	52%
594	3%	PwTch	-	-	1	1	521	52%	52%	52%
3194	15%	PwTchH	-	-	1	1	521	52%	52%	52%
754	75%	PwTchP	-	-	1	1	521	52%	52%	52%
3214	17%	PwTchP	-	-	1	1	521	52%	52%	52%
1774	51%	PwTchP	-	-	1	1	521	52%	52%	52%
5214	25%	PwTchP	-	-	1	1	521	52%	52%	52%
35	25%	PwTchP	-	-	1	1	521	52%	52%	52%
5014	51%	PwTchP	-	-	1	1	521	52%	52%	52%
3444	19%	PotAH	1,30	54	1	500	20%	21%	21%	21%
77	55%	PotSh	-	-	1	1	621	48%	48%	48%
3214	11%	PotSh	-	-	1	1	2455	48%	48%	48%
5094	22%	PotSh	-	-	1	1	2455	48%	48%	48%
3224	22%	PotSh	1,20	42	1	21	379	37%	37%	37%
1044	25%	PotSh	-	-	1	1	2455	48%	48%	48%
3494	10%	PotSh	-	-	1	1	2455	48%	48%	48%
7824	53%	PotSh	2,18	23	1	200	25%	25%	25%	25%
3714	21%	PotSh	1,88	85	1	19	123	23%	23%	23%
8214	50%	PotSh	1,00	19	1	19	1916	55%	55%	55%
4644	33%	PotSh	1,00	14	1	19	211	41%	41%	41%
3394	33%	PotSh	1,00	14	1	19	255	35%	35%	35%
3494	18%	PotSh	1,00	14	1	19	255	35%	35%	35%
8164	51%	PotSh	1,00	14	1	19	255	35%	35%	35%
1094	17%	PotSh	1,00	14	1	19	255	35%	35%	35%
4474	23%	PotSh	92	12	1	19	255	35%	35%	35%
8064	51%	PotSh	48	11	1	19	1099	55%	55%	55%
5954	4%	PotSh	1,77	41	1	19	85	47%	47%	47%
24	14%	PotSh	-	-	1	1	621	48%	48%	48%
2504	15%	PotSh	-	-	1	1	94	24%	24%	24%
2114	15%	PotSh	9	30	1	1	94	24%	24%	24%
2524	15%	PotSh	2,200	67	1	1	197	38%	38%	38%
2624	24%	PotSh	-	-	1	1	164	21%	21%	21%
2424	24%	PotSh	-	-	1	1	266	17%	17%	17%
1314	21%	PotSh	-	-	1	1	621	48%	48%	48%
594	5%	PotSh	-	-	1	1	113	11%	11%	11%
4714	20%	PotSh	1,08	22	1	1	94	24%	24%	24%
8774	54%	PotSh	2,008	34	1	1	94	24%	24%	24%
2514	14%	PotSh	1,65	30	1	1	161	21%	21%	21%
4784	34%	PotSh	1,60	40	1	1	1573000	30%	30%	30%
1994	39%	PotSh	-	-	1	1	581	34%	34%	34%

The Risks and The New Rules for Trading in Asia's Glutamum

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MONEY

SATURDAY-SUNDAY,
JULY 11-12, 1998
PAGE 17

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The Risks and Rewards of the Emerging-Markets Currency Game

The New Rules For Trading in Asia's Gloom

By Philip Segal

IN THE SPACE of a year, Asia's currencies have gone from being among the most boring to some of the most volatile investments on Earth. For years, most currencies in the region were in some way pegged to the U.S. dollar. Now, with the Hong Kong dollar the only fixed, tradeable Asian currency left, the rest often bounce around by huge margins in the space of a day.

With many down 40 percent or more from this time a year ago, Asian currencies are not for the faint-hearted. The Thai baht's 100-day volatility against the dollar is 30.6 percent, the Philippine peso's is 20 percent and that of the South Korean won is 28 percent. These are two to four times the volatilities of the major European currencies measured against the dollar.

Nor are Asian currencies for the traditional value-investor who is used to buying low-priced stocks or stodgy government bonds. For anyone trying to gauge longer-term currency values in Asia, the task is almost hopeless.

"Timing is important," said Steven Chang, managing director of foreign exchange at State Street Bank in Hong Kong. "It's not just buy-and-hold. You have to be smart."

These days, Asia's currencies move according to the latest readings not of the dollar, as in the past, but according to news emanating from Japan.

"The yen dominates all other factors," said Frank Gong, senior economist, foreign exchange, at Bank of America in Hong Kong.

If the yen seems set to rebound, currencies strengthen, but there are plenty of doomsayers who see the dollar rising above 200 yen, from the current 141, by the end of this year.

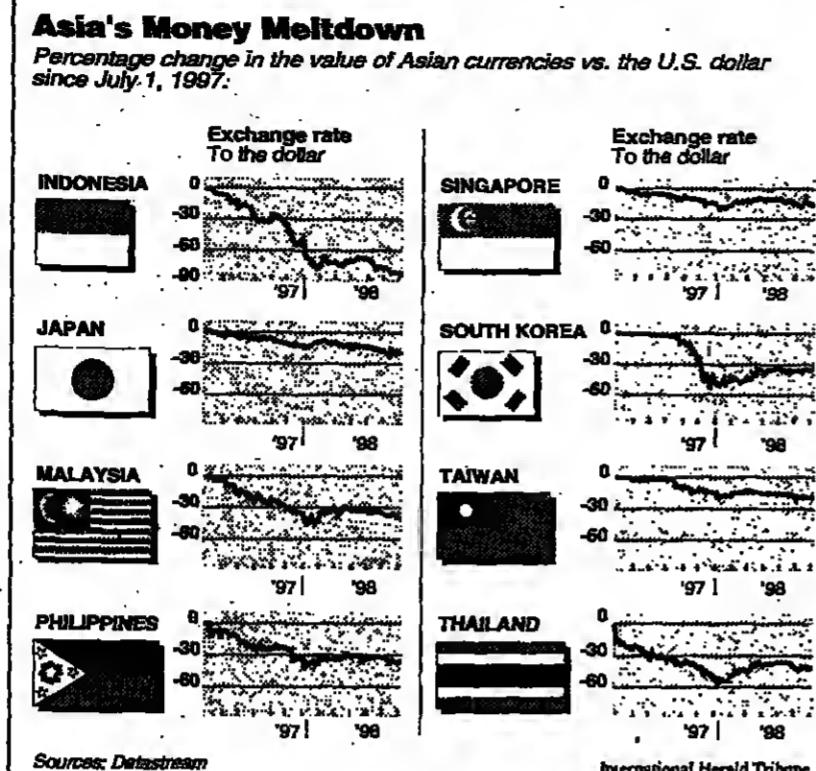
Is Japan's bridge-bank solution announced on July 2 the sum total of its promised "total plan" to fix its sick banking system? Given that the yen has weakened since the announcement, investors who have bought Asian currencies should hope not.

"It's as much a bridge for a plan as it is a bridge for a bank," said Pelham Smithers, strategist at ING Barings in Tokyo. "To say it's got holes in it misses the point. There are about two slats in place out of two million."

Santander Investment's strategist, Christopher Wood, called the plan "another warehousing solution," and criticized the idea that bad banks would stay in business for years to come.

"Do not be surprised if many of the companies enjoying continued funding are politically influential construction companies," he warned.

ING's reading for the yen in the com-



Source: Datastream

ing months is that it will bounce within a wide range. The dollar could get as high as 160 yen after central bank intervention, or as low as 120 as hedge funds continue to be tempted by borrowing yen at interest rates five percentage points below what they can by converting the money into dollars and buying U.S. Treasury paper.

Others are even gloomier, from the point of view of anyone hoping for a stable, or stronger, yen. Martin Armstrong of Princeton Economics said the dollar would rise to 200 yen by year's end, because deregulation of Japan's financial sector will free \$9 trillion, or 40 percent of the world's savings, to go abroad. Not only might the yen fall as a result, but so could Japanese government bonds, the high-price paper responsible for some of the lowest interest rates anywhere, ever.

"If the yen continues to be weak, there's little room for the ringgit or baht to recover," Mr. Gong said. If the yen stays weak, in his view the most vulnerable currency in the Singapore dollar, which he thinks is overvalued against other Southeast Asian currencies.

The major risk for Asian currencies, other than a weakening yen, is that countries in the region will decide that lower interest rates and the risk of accelerating inflation are preferable to the high rates that have choked off investment. The move to print money may inflate away a lot of domestic debt, but in the meantime currencies would surely weaken.

The Economist Intelligence Unit forecasts that almost all of Asia's currencies will be weaker against the dollar next year than they are now. So how to profit if things seem gloomy in the short term?

As volatile as the markets now are, in many cases they are far less liquid, as

imports plunge, trade financing evaporates and foreign investors flee to the safety of other stock markets. One of the most liquid is the Australian dollar, which moves along with feelings about the yen and is easy to sell short. Lower growth in Japan means lower commodity prices, and commodities are what drive Australia's economy. Australia's largest single market is Japan, most of Australia's big customers are in Asia, and commodities constitute nine of its top 10 exports.

At about 61 U.S. cents, the Australian dollar is stronger now than when it bottomed earlier this year at 58 cents and it also has plenty of upside for those optimists who think Asia has seen the worst of its troubles.

Jardine Fleming, Fidelity, Rothschild Asset Management and Lloyds International all offer Australian dollar money-market funds in Hong Kong. Australian dollar futures trade on the Chicago Mercantile Exchange, which on its Web site explains how derivatives work and walks users through a simulated futures trade.

One cautionary note: Do not believe analysts who say a currency is strong because it is not fully tradeable. In May, Taiwan banned some trading in nondeliverable forward contracts (an agreement to buy and sell dollars at a prearranged price and date that is settled in local currency), but the Taiwan dollar has weakened anyway. The trade restrictions were blamed for sharp falls in the stock market as risk-averse foreign investors bailed out.

Obviously, countries such as Venezuela, which is almost entirely reliant on oil, are shunned by investors when commodity prices are low. No one is suggesting buying the Venezuelan peso any time soon. Why Chile and Mexico, which have more to offer than the commodities they sell to Asia, have been targeted by speculators is less clear. That the economically sound Central European currencies are tainted simply by their proximity to Russia seems ridiculous to some analysts.

Nevertheless, the Polish zloty, the Czech koruna and the Hungarian forint have wobbled in recent days on mounting investor concerns that Russia may be forced to devalue the ruble.

It's Time to Give Some Currencies A Second Look

By Aline Sullivan

MIDSUMMER madness appears to have descended on investors in emerging-market currencies. Everyone agrees that some of them are vastly undervalued, but few are willing to buy. Instead, they are holding dollars and waiting for the storm to pass.

There is no reason for the Mexican peso, the Korean won and some Central European currencies to be as cheap as they are, according to analysts in New York and London. Even the eight-week run on the South African rand, prompted by the country's political and fiscal problems, has gone too far, they said.

"Most of the emerging-market currencies are now undervalued," said Avinash Persaud, global currency strategist at J.P. Morgan & Co. in London. "They may become even more so. Investors still have a very low appetite for risk. But sentiment appears to be changing. It is worth keeping a close eye on the markets that have been most oversold."

J.P. Morgan's Global Risk Appetite Index, which measures investor perception of risk in 26 emerging markets on a scale of minus 1 to 1, is heading in a positive direction for the first time in three months. At negative 0.3, it still has some way to go, but it has come a long way from its recent low of negative 0.8.

"There is a very good case now for many currencies," said Desmond Lachman, head of global emerging-markets at Salomon Brothers in New York.

"Many of them have been tremendously oversold."

Mexico and South Africa, for example, are trading near all-time lows against the dollar.

Three related contagions have infected much of the emerging world: Japan's currency and debt crisis, Russia's currency and debt crisis, and sinking commodity prices. Almost all emerging-market currencies have been laid low by at least one of these factors.

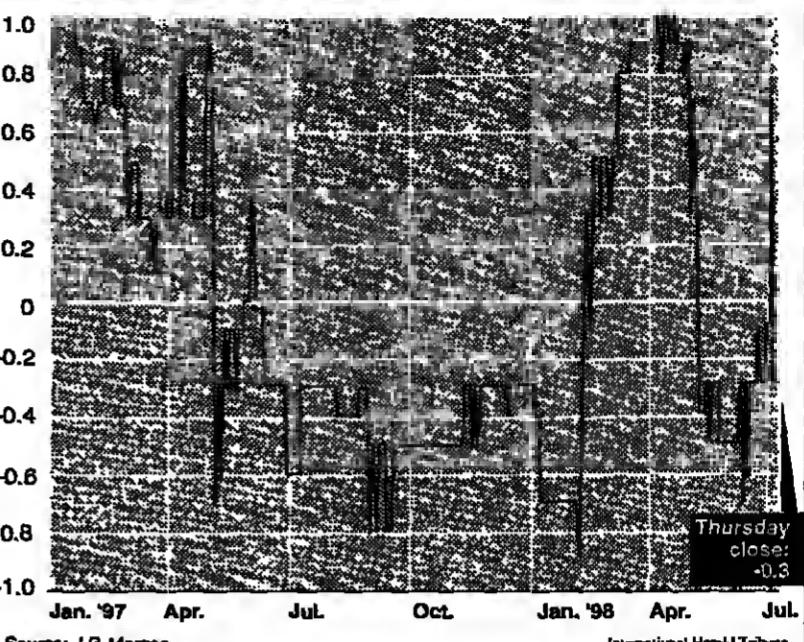
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Nevertheless, the Polish zloty, the Czech koruna and the Hungarian forint have wobbled in recent days on mounting investor concerns that Russia may be forced to devalue the ruble.

Overly Shy of Risk?

J. P. Morgan's Global Risk Appetite Index. With a reading of +1, markets are risk-inclined, exhibiting a preference for high-yielding but volatile currencies. An index reading of -1 shows markets are risk-averse.

After their confidence rose earlier this year, global investors had risky currencies in the spring.



Source: J.P. Morgan

David Lubin, emerging-market economist at HSBC James Capel, said he did not see a good reason for the Central European currencies to deteriorate. But that does not mean that they will not.

"They rely very little on Russia as an export market — only 7 percent of their exports go to Russia," Mr. Lubin said.

"But if holders of ruble assets find themselves with large losses, they may want to liquidate their other holdings in the region."

On the other side of Russia, the Asian contagion continues to spread. The yen's weakness against the dollar has undermined the region's currencies and eroded demand for oil and gold. It has also prompted fears China may devalue its yuan, forcing the region into a new round of devaluations to maintain exports.

In South Africa, where a home-grown fiscal and political crisis has been exacerbated by the woes of other emerging markets and falling commodity prices, the end may be in sight. The rand started to strengthen this week after the dollar rose to a record 6.80. Traders said that concern over the appointment of Labor Minister Tito Mboweni as future head of the central bank had eased.

Individual investors who want to invest in currencies would do best to use money-market mutual funds designed for this purpose. Although it might be tempting to run out to your bank or bureau de change, this could be an unfulfilling experience. "If somebody wanted to go out and physically buy notes, the spreads are enormous," said Jonathan Bloch, of Direct FX, a bureau de change company in London. "It's roughly 8 percent, depending on availability, and it could be up to 20 percent."

Futures, where available, are another possibility, although typically they require tens of thousands of dollars of capital and subject investors to the risk of margin calls. The Chicago Mercantile Exchange, for example, lists futures on the Mexican peso, the rand and the Brazilian real.

Trading through foreign-exchange dealers is also possible, but spreads on emerging-market currencies are also likely to be too high for most individual investors except for exchange-listed futures and spot contracts.

For further information:

• BRADYNET: Information for traders of emerging market debt instruments. Web site: www.bradynet.com.
• CHICAGO MERCANTILE EXCHANGE: Telephone: 1 312 950 1000. Web site: www.cmegroup.com

• CHICAGO BOARD OF TRADE: Telephone: 1 312 355 3500. Web site: www.cboe.com

• WEBINVESTOR: A site with international links to currencies. Web site: www.thecurrencyweb.com/currency_forex.html

Many fund-management companies offer money-market funds denominated in several currencies, though emerging-market currencies are not always accessible. Here is a list, compiled by Lipper Analytical Services, of large providers of money funds that each offer four or more currency choices.

• UNION BANK OF SWITZERLAND (14 currencies). Telephone: 41 43 12 4000.

• CREDIT SUISSE ASSET MANAGEMENT (11 currencies). Telephone: 392 326 1111.

• AEGEO-DIGI INVESTMENT (4 currencies). Telephone: 212 565 3502.

• GENERALE DE BANQUE (6 currencies). Telephone: 33 1 45 35 3002.

• SWISSCREDIT FONDSEINLETTUNG (11 currencies). Telephone: 352 4015 3200.

• CREDIT LYONNAIS (11 currencies). Telephone: 352 476 2100.

• ROTHSCHILD ASSET MANAGEMENT (21 currencies). Telephone: 44 1461 719 700.

• BNP INVESTMENT MANAGEMENT (10 currencies). Telephone: 33 1 40 14 45 45.

• PARIBAS (17 currencies). Telephone: 33 1 42 98 12 34.

• JULIUS BAER INVESTMENT FUNDS SERVICES (6 currencies). Telephone: 41 1 267 5700.

Amid the Tumult, Smooth Sailing for an Offshore Money Fund With an Exotic Mix

By Conrad de Aenlle

AMONG THE FEW eager buyers of currencies from developing countries are shareholders in the Guinness Flight Hambro Emerging Currency Fund. The offshore fund, started in December during the worst — so far — of the Asian economic and currency crisis, invests in short-term cash deposits denominated in the currencies of about two dozen emerging economies.

Many investors would consider it too risky to own securities issued in Mexican pesos, let alone Philippine pesos or Lebanese pounds. But John Stopford, the fund's manager, said the portfolio's diversification keeps volatility low, while the perception that emerging cur-

rencias are treacherous allows the fund to generate much higher returns than conventional money-market funds.

Because of downward spirals in Southeast Asian currencies and the share price others will follow, buyers of paper priced in emerging currencies demand high interest rates. The fear of further devaluations is so great, Mr. Stopford said, that the real return — the interest rate, less the rate of inflation — is typically much higher than that available in instruments denominated in more docile currencies.

"The idea is you get paid a risk premium."

The formula is working so far. From its debut on Dec. 30 through June 30, the fund had a total return of 3.85 percent measured in dollars, according to Lipper Analytical Services, which tracks fund performance. It placed eighth among 62 offshore short-term bond funds, which is how Lipper categorizes it. The average fund in the group was up 2.6 percent in the period, compared with 0.6 percent for the

average money-market fund.

Bill Blevins, a financial adviser at Blackstone Franks in London, said such a fund would be a useful addition to a broad portfolio, but warned that "a private investor must understand that however much you defend against it, there is bound to be increased volatility, compared with a fund taking positions in dollars or sterling."

"The volatility in a basket of currencies is probably quite reasonable," he added, "but it won't have anything like the volatility of a conventional fund. I think there's a place for it in the market, but to suggest that this is a fund for all seasons and all people is nonsense."

If Emerging Currency is to continue to outpace other money-market funds, it will have to overcome expenses that are steep for such funds, including a 1 percent annual management fee. In addition, there is

an initial sales charge of 5 percent, unheard of in money-market funds, which rarely have any load, let alone one that steep.

Philip Saunders, a director of Guinness Flight Hambro, acknowledged the up-front charge was high but said that the fund was unlike other money funds because of the wider investment choices the manager must make. But he added that there are discounts for investors who buy directly from the firm and not through a financial adviser, and no charge at all for investors who buy through the international division of Charles Schwab Corp., the American discount stockbroker.

The fund's exposure to Asia has been cut from about 15 percent to no more than 9 percent, concentrated in China, the Philippines, South Korea and Thailand.

"The initial rally in Asia is petering out and some of the problems are coming home to roost," Mr. Stopford said. The timing of the fund's introduction during the Asian crisis was coincidental, he added.

GUINNESS FLIGHT HAMBRO EMERGING CURRENCY CHARGES: Initial investment of \$3,000. For further information, call 41 71 522 2111 or visit the Web site at www.guinness-flight.com.

risen against the dollar since the investment was made and Greek paper is returning about 12 percent.

Another favored region is the Middle East, which has "high reserves and well-managed foreign-exchange rates," the manager said. In particular, Lebanon is benefiting from peace and a repatriation of capital by returning citizens.

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THE MONEY REPORT

Q & A / Mark Howdle, Salomon Smith Barney

Redefining 'Domestic' In the New Euroland

An Equity Strategist's Post-EMU Scenarios

MARK HOWDLE is European equity strategist at Salomon Smith Barney in London. He spoke with Conrad de Aenhe about the investment landscape in the region after Economic and Monetary Union is introduced in January.

Q. The prelude to EMU has clearly been good for owners of European stocks and bonds, as interest rates have fallen and currencies have declined against the dollar, boosting corporate earnings. Will the euro's introduction in January be a non-event for investors, or perhaps even an excuse to sell?

A. The market isn't expecting any sudden transformation for corporations. The most important change is that the "domestic" equity and bond markets will no longer consist of one country, but 11. So this will inevitably lead to some large-scale portfolio restructuring by euro-zone investors. For them, this is a big event, and its effects can only get under way properly once the definition of a domestic asset changes in January.

Q. Money managers are expected to treat the euro zone as a single investment region, with stock-picking taking precedence over country allocation. Does that mean more money will flow into shares of regional standouts?

A. I expect to see a significant large-cap bias over the next six to 12 months. As many European domestic equity funds shift their portfolio away from a national benchmark to a euro-zone equivalent, they will no longer need to own the smaller CAC or DAX stocks, but new buyers from 10 other countries will be bidding for the larger CAC or DAX stocks that make the cut into a concentrated euro-index.

In the first phase of diversification, it may not be the best companies that attract the buyers, just the biggest and most liquid. The second phase will be when funds are sufficiently motivated to switch out of expensive-looking index stocks into second-liners, which are clearly cheaper on fundamentals.

Q. Will the euro be a weak or a strong currency?

A. For the first year or two, it will probably rise against the U.S. dollar,

partly for cyclical reasons and partly because of some structural diversification away from predominantly dollar currency reserves and dollar assets.

Q. So you agree with EMU proponents who argue that the euro will be the dollar as the world's reserve currency, compelling investors to increase their exposure to European assets?

A. That's putting the case too strongly. But central banks with big foreign reserves like Japan, China and Singapore probably will choose to diversify away from a predominantly dollar base to hold more euros, providing that the European Central Bank sends the right signals from the outset. That will support the cyclical tendency for the euro to strengthen and could lead to a virtuous circle in European bond markets.

Q. Would you rather own European bonds or stocks?

A. Stocks should be the better asset class. We project a total return of 15 percent or so over the next 12 months for European stocks, compared with a return of less than 5 percent on long-dated government bonds or cash. Some equity markets should do even better. These include Italy, Spain, Portugal, Sweden and the Netherlands.

Q. Those are mostly the peripheral countries, where markets have already had much bigger runs than those in core Europe. Why do you expect them to push further ahead?

A. Some of the peripheral countries had a great run-up between November and March; Italy, Spain and Portugal all gained 60 percent or more in that period. Since then, they have consolidated most of their gains and I believe they still will have ammunition for another leg up later in the year in the form of further cuts in short rates, boosting growth prospects and driving more retail savings from cash deposits into equities.

Q. Investors outside Europe showed little interest in EMU until recently. Do you expect their net investment in the region to accelerate?

A. There are signs that flows into Europe from the U.S. have begun to pick up again in 1998.



Mark Howdle: Upbeat on Europe.

For the last three years, the U.S. investor had a strong local market and an appreciating dollar, so little incentive to move funds abroad. Investors seem less convinced about the U.S. market today and are certainly showing a great deal of interest in Europe's comparative prospects over the next couple of years. We see this happening both at the institutional level, with U.S. pension funds and insurance companies, and also in the retail market, as U.S. private investors are showing an appetite for Europe's positive story.

Q. Which sectors stand to be the biggest winners and losers?

A. The biggest EMU beneficiaries could turn out to be the financials, especially those with significant asset-management and investment-banking activities. The one sure thing about EMU is that it will trigger enormous growth in Europe's capital markets and channel Europe's savings into new investment products. So the incremental revenues here will be significant.

Losers in the first few years could be the traded-goods sectors, the exporters and overseas carriers who will be hurt by a strengthening trend in the euro. Also some consumer sectors, facing additional margin pressure from the combination of pricing transparency in the euro zone, and Internet technology helping to provide Europe's consumers with a means to shop around for the best price. So EMU will probably be disinflationary and put some additional pressure on margins all through the distribution chain, from producer to retailer.

Euro Options: Diversity Born of Unity

With Single Currency, a Wide Range of High-Yield Issues Is Expected

By Barbara Wall

THE ADVENT of a single currency next year is unlikely to change the prosperity of Euroland investors overnight, but it will create investment opportunities and expand the range of European bond and equity products, according to European fixed-income fund managers and strategists.

"The opportunities of enhancing yield by trading across currencies and between countries within the euro zone will largely disappear from next year," said Jeremy Smooha, a fixed-income portfolio manager with Global Asset Management Ltd. in London, "and attention will be drawn to enhancing yields by looking out along the credit spectrum. I expect an increasing supply of corporate bonds for the last payments, typically getting higher interest rates but facing increased default and prepayment risks."

"There is already a mortgage-bond market in Germany, and several other countries in Europe, including Italy and Spain, are in the process of developing a market for mortgage-backed bonds," Mr. Smooha said.

Poala Lamedica, a London-based European bond strategist for Paribas Capital Markets said, "Investors can expect to see more sophisticated sovereign issues as sovereign borrowers are

forced to compete harder for funds in the enlarged domestic market."

"France has been the front-runner in introducing innovative products," she added. "It was among the first countries in the theoretical euro zone to launch a stripped government bond market, and it has recently introduced inflation-linked bonds."

The later product gives investors who fear a rise in inflation the ability to protect their portfolio."

Given the relentless rise of continental European equities and the emergence of Euroland equity indexes, Ms. Lamedica expects to see more bond products with an equity element attached. Britain, which is not in the single-currency club, has a market for index-linked products, which have been largely ignored on the Continent.

Many index-linked bond products tied to the Dow Jones Stoxx 50, a blue-chip index covering all of Europe, and the Euro Stoxx 50, which includes only companies from the euro zone, have started in recent months. Merita Bank in Finland introduced a capital-protected, index-linked bond in March for Finnish retail investors. Investors in this zero-coupon instrument get their yield from moves in the index. Bank Julius Baer in Zurich has a similar product linked to the Dow Jones Stoxx 50.

The growing complexity of Euroland markets may actually discourage individuals from the outright purchase of bonds and stocks. A spokesman for Merita Bank said institutions would seek products that give investors ease of access to the new opportunities.

Some European fund management groups have started high-yield funds. They include the German group DWS GmbH, the mutual-fund arm of Deutsche Bank AG, and the Austrian group Security KAG. So far, there are no Europe-only high-yield funds; most invest in a combination of U.S. and European corporate issues.

Rendite Extra Europa, a Luxembourg-domestic fund started by DWS, aims to be a dedicated euro-trust fund, but it has some exposure to East European bonds and the U.S. junk-bond market. Peter Walburg, head of credit research at DWS, said the fund's risk profile was probably comparable to that of an international equity fund.

A number of U.S. fund managers are also designing high-yield products to meet the challenges and opportunities presented by monetary union. Fidelity Investment Funds and Massachusetts Financial Services Co. are reportedly preparing high-yield bond funds.

Some fund managers have adapted their existing bond portfolios as a prelude to a European high-yield fund. Paul Brain, a spokesman for Guinness Flight Asset Management Ltd. in London, said that in June the investment mandates of the firm's two European high-income funds had been changed to allow investment of up to 70 percent in nongovernment securities. A nongovernment bond product is planned for later this year, he said.

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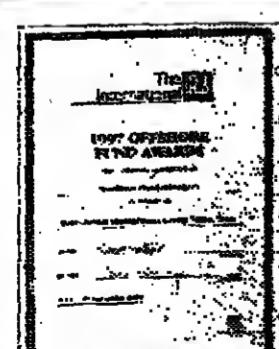
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WORLD ROUNDUP**2 Britons Shine**

ATHLETICS The British runners Mark Richardson and Iwan Thomas dominated the 400 meters at the Bicentennial Games in Oslo, leaving the American legend Michael Johnson in third place.

Richardson, last at the halfway stage, stormed home in 44.37 seconds, while Thomas, the British record holder, clocked 44.50. Johnson, the world and Olympic champion, faded to third in 44.58 and, according to Richardson, promptly ignored the winner, refusing to shake hands. He also did not turn up at the victory ceremony.

Jonathan Edwards was another British athlete with something to celebrate. He recorded his third triple jump in excess of 18 meters and his first since his golden year of 1995, when he set the world record, 18.29 meters. Edwards won a protracted competition with his final effort of 18.01 meters. (Reuters)

U.S. Olympian Suspended

SWIMMING The American swimmer Gary Hall Jr., who won two gold medals and took two silvers at the 1996 Olympics, has been suspended from competition after testing positive for marijuana. The 23-year-old freestyle sprinter faces a two-year ban after what FINA, the world governing body of swimming, considers a second positive finding for marijuana in a May 15 drug test. The first was at the 1996 Atlanta Games. The suspension is provisional pending a second test of Hall's latest sample. (AFP)

Victory for Don King

BOXING The American boxing promoter Don King has been found not guilty on all counts at his second trial on charges that he altered a contract with a fighter in order to cheat Lloyd's of London out of \$350,000.

The federal jury in New York was unable to reach a verdict on charges against his promotion company. Nevertheless, King claimed triumph Thursday. "Victory, victory, hear my cry, V-I-C-T-O-R-Y," King said. "Victory is mine today. I'm very happy today. It's a victory for America." (AP)

WNBA Unionizing Effort

BASKETBALL Officials of the union that represents NBA basketball players are meeting with WNBA teams to try to persuade them to join forces and form a players' association that would negotiate their contracts with the NBA, owners of the women's professional basketball league. (WP)

A First for a Woman

BASEBALL Ila Borders, a pitcher, became the first woman to start a minor league game, taking the loss as the Duluth-Superior (Minnesota) Ducks fell, 8-3, to the Sioux Falls Canaries. Borders, 23, had pitched 10 innings during six relief appearances this season.

The Dukes' manager, George Mitterwald, pronounced her start a success. "If all our starters could keep teams at three runs for five innings, we'd probably be doing a lot better," he said. (AP)

Boardman Has Doubts As Tour Gets Set To Roll

By Samuel Abt
International Herald Tribune

DUBLIN — This whole year has been a roller-coaster ride, physically and mentally, for Chris Boardman and now, as his biggest moment in the bicycle racing season arrives, he is speeding down, down, down.

"There's been things going on in my life that had influence on the sport," he said suddenly in an interview. "Real life has interfered, and I'm not in the best shape I could be in."

"I'm afraid I'm not going to expand any more than that," he said, even though he had not been pressed. "It's a personal matter."

With the Tour de France starting Saturday, Boardman characterized his state of mind in one word: "depression."

That was an extraordinary admission by the rider who has won the short

TOUR DE FRANCE

opening prologue twice in the last four years and who should be the overwhelming favorite when the 85th Tour begins with a 5.6-kilometer (3.5-mile) spin through the heart of Dublin.

"It's the world prologue champion ship," the 30-year-old Englishman said. "You've got to push. But my form is not there. Last year, I came to the start and I thought: 'If all goes well, I should win. I might lose, but I should win.'

He did.

"This year, I'll probably be in the first five and I might win. It's about that around."

"I'm not being negative," he said, "just realistic. That's the way it is this year. You don't always have the form that you want when you want it. This year, for various reasons, it's like that for me. But I'll just give it 110 percent and hope that's enough."

Cordial and articulate as always, he neither looked nor sounded mournful.

Boardman, the leader of the Gannam team based in France, was troubled earlier this season by what were described as



Jan Ullrich of Germany, right, last year's winner, warming up in Dublin. (Patrick Keane/Agence France Presse)

gastric upsets. Partly in compensation for lost time, partly because he is addicted to training, he continued to work when many felt he should be slacking off a bit. The result was that he became overtrained and stale.

Worse, he began to overthink. By the time of the Prologue in England late in May, he had not yet won a race.

"I'm riding below par and as to why, I just do not know," he admitted there. "I've analyzed it: The evidence has been pulled apart many times. We still haven't come up with anything."

"It's quite scary but you get used to failure. You realize that you may very well be on a plateau or even on the descent, but that's one of those things you don't want to talk about. You don't know where the top is until you're looking back at it. There is no peak until you start down the other side. For myself, it becomes a whole lot less interesting when you hit that plateau."

Boardman won the prologue in the Prologue and the first daily stage after that, finishing second overall when the weeklong race reached London. Two weeks later, he won both the prologue and the long time trial in the Dauphine Libere race in France.

The Tour of Catalonia at the end of June went just as well as he again won the prologue and long time trial. Finally,

Boardman seemed to be on track.

In the last two weeks, however, he has begun to lose his power to recover, which is essential for a rider in a three-week race like the Tour.

While Boardman has never been able to cope with the race's mountains, he might have been expected to be a major factor in the first long time trial, scheduled July 18 before the Pyrenees are entered. The course covers 58 kilometers (36 miles), a bit more than the 56.3 kilometers he traveled when he set the world record for the hour's ride against the clock in 1996.

Now his chances seem doubtful, considering his pessimism about the prologue, his specialty.

Boardman said he felt too special affinity for the Tour's start in Dublin, an Anglophone country where people drive on the left, the food is at best hearty and the weather is cool, rainy and overcast — all like home in Liverpool.

"It's not different," he said, "It's the Tour de France is the Tour de France wherever it may start."

"I feel under tremendous pressure because I feel the responsibility that I have with the team. This is what I'm paid to do. But when things haven't gone well in the buildup, the security isn't there and it's not a very pleasant time in the waiting game, waiting for it to happen."

Schumacher Closing, Hakkinen Is Ready

British Grand Prix Could Be Test of Wills

By Brad Spurgeon
International Herald Tribune

Hakkinen nearly lost much more before the Australian Grand Prix in 1995 when a tire puncture sent his McLaren flying into a wall. He fractured his skull, and his life was saved only by an emergency tracheotomy by track medics.

"I had definite doubts I would ever come back as I was in the past," he said. McLaren's managing director, Ron Dennis, told him to return when he felt ready. Months later, on his first test, he set a lap record.

Hakkinen had learned about the danger of racing long before that. At 6, his parents let him try a go-kart for the first time. He rolled the kart upside down. "That was bad," he said, with more emotion than when talking about his nearly fatal accident. "That was the day that I realized the danger. It came from my father. I saw by the emotions on his face how dangerous it was."

He later became Finnish kart champion five times. At 18, he bought a racing car and won championships in Formula Ford.

In 1987 he met Keke Rosberg, a fellow Finn and a former Formula One champion, who managed Hakkinen through two more championships in other categories and then signed him to Lotus in Formula One in 1991.

Hakkinen became test driver for McLaren in 1993, Ayrton Senna's last year with the team. With three races to go, Michael Andretti, the other driver, quit. Hakkinen replaced him and qualified faster than Senna in his first race.

McLaren was struggling, and it was several years before Hakkinen found himself in a car that could win.

"I feel much more ready for the pressure," he said. "As long as you win sooner or later, there's nothing wrong with it. If you know you're good, and you do your job well, you just have to keep going. You will get your goal. But you have to believe in yourself."

Norbert Haug, the head of Mercedes Motorsport, the team's engine supplier, believed in him as well.

"Lots of people said we should throw him out," Haug said. "Even last year when our engines were failing, they said we should throw the drivers out. But we stayed with them, and I think we showed everybody that it was the right idea."

Twins Move Step Closer to Indians, but 'Don't Get Carried Away'

The Associated Press

The Minnesota Twins are trying to make a race of the AL Central. In the opener of a head-to-head series with first-place Cleveland, the Indians co-operated.

Bob Tewksbury allowed three hits in 7½ innings as the Twins beat Cleveland, 3-0, on Thursday night. The Indians,

BASEBALL ROUNDUP

shut out for the fourth time this season and third at home, saw their lead over Minnesota shrink to 94 games.

Tewksbury (5-9) retired 18 straight after Brian Giles' double with one out in the second. Greg Swindell got out of a jam in the eighth, and Rick Aguilera pitched the ninth for his 19th save.

"Don't get carried away now," said the Twins' manager, Tom Kelly. "The Indians are a wonderful club. They have

a lot going for them at every position on the field. We can jump up and beat them once, maybe twice, and then get out of town. Hopefully, we won't get bruised up."

Mariners 8, Angels 6 In Seattle, Ken Griffey Jr. moved within one of Mark McGwire for the major league home run lead with his 36th of the season. Griffey's two-run homer off Pepe Hirsch, a 442-foot shot to center field, gave the Mariners an 8-1 lead in the sixth inning.

Yankees 2, Devil Rays 0 Andy Pettitte pitched five-hit ball over eight innings as the Yankees won at Tampa Bay for their seventh straight victory. Joe Girardi hit a two-run homer off Bryan Rekar (0-1) in the second inning as Pettitte (11-5) won his fifth straight decision, striking out eight and walking one.

Angels 3, Red Sox 2 In Baltimore, Cal Ripken Jr. and Mike Mussina each had a two-run homer in the eighth as the Red Sox lost to the Angels, 3-2.

Red Sox 4, White Sox 3 Sal Fasano drove in three runs to match his career high as Kansas City won at Chicago, the Royals' seventh victory in 11 games.

Rangers 4, Athletics 1 Ivan Rodriguez singled in the tie-breaking run in the ninth and John Burkett (5-9) pitched eight strong innings for his first victory since June 6.

Tigers 4, Blue Jays 3 Tony Clark led off the eighth against Dan Plesac (3-3) with his 18th homer. Geronimo Berrios hit his 100th career homer and Damion Easley had two RBIs for the Tigers, who won for the fifth time in seven games.

Red Sox 5, White Sox 4 Sal Fasano drove in three runs to match his career high as Kansas City won at Chicago, the Royals' seventh victory in 11 games.

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World Cup

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SATURDAY-SUNDAY, JULY 11-12, 1998

WORLD CUP BRIEFS

Finalists Dominate All-Star Selection

Eight players who will appear in the World Cup final, including Brazil's Ronaldo and France's Marcel Desailly, made the FIFA All-Star Team for France 98.

The 16-man team, chosen by the FIFA Technical Study Group and sponsored by MasterCard, also has three players from the Netherlands, two from Paraguay and Denmark and one from Croatia.

Joining Ronaldo from Brazil are defender Roberto Carlos and midfielders Rivaldo and Dunga. The other French players are goalkeeper Fabien Barthez, defender Lilian Thuram and midfielder Zinedine Zidane.

The Dutch players are striker Dennis Bergkamp, midfielder Edgar Davids and defender Frank de Boer. Paraguay's goalkeeper Jose Luis Chilavert and defender Carlos Gamarra were chosen, along with the Danish brothers Michael Laudrup, a midfielder, and Brian Laudrup, a striker, and the Croatian striker Davor Suker.

Six players were chosen as reserves: goalkeeper Edwin van der Sar of the Netherlands, midfielders Jay Jay Okocha of Nigeria and Juan Veron of Argentina; and strikers Christian Vieri of Italy, Michael Owen of England and Thierry Henry of France. (AP)

Heinrich Moves to Italy

Joerg Heinrich, the German wing back, joined Fiorentina of Florence on Friday after Borussia Dortmund accepted an offer of \$13.7 million. (Reuters)

Hong Kong Player Jailed

A Hong Kong court Friday jailed Chan Tsui-kong for 12 months for taking a bribe to lose a World Cup qualifying match against Thailand, government radio said.

Chan, a striker with the Sing Tao club, admitted conspiring with others to take a \$25,806 bribe from a bookmaker in return for ensuring that Hoog Koog lost the match to March 1997. (Reuters)

Benfica Check Bounces

A £2 million (\$3.2 million) check issued by Benfica of Lisbon to Manchester United of the English Premier League to pay for Karel Poborsky, a Czech international, has bounced, Ken Ramsden, a Manchester United spokesman, said Friday.

Benfica ran into financial trouble when its plans to float on the Portuguese stock market ran aground. (Reuters)



Brazilian players holding their hands as fans unfurled a national flag during a team training session Friday. (Richard Lakin/Reuters)

CUP: Brazil and France to Square Off in the Century's Last Final

Continued from Page 1

This is the fourth consecutive final in which a European team will face a South American team. Until now, the team playing closest to home has always prevailed, but Brazil's coach, Mario Zagallo, has had little trouble laughing in the face of precedent this week.

"The French will have 30,000 fans in their stadium, but you must remember that in the head of every Brazilian player, there will be 160 million Brazilian fans behind us," Zagallo said. "We have won all of our World Cups outside the country. I respect very much the French team, but I am not afraid of it."

"We are too used to big finals and big matches to approach them with apprehension. If any players should have goosebumps before the kickoff, it should be the French, not the Brazilians."

It will be the first time a host nation and the defending champion face each other in a World Cup final, and it bears remembering that one of the main reasons France is staging this event at all is because the former FIFA president Joao Havelange, a Brazilian, put his weight behind their bid. On Sunday, Havelange and President Jacques Chirac will both have a rooting interest, and it will not be the first time their nations meet with much at stake.

In 1958 in Stockholm, the Brazilians defeated the French, 5-2, in the semifinals. Pele, then 17, scored three of the Brazilian goals, but the match might have been less lopsided if the French captain, Robert Jonquet, had not injured his knee in the 35th minute. If that had happened today, the French coach would simply have inserted a healthy replacement, but this was in the stiff-legged era

before substitutions were authorized.

But the French gained a measure of revenge in the 1986 quarterfinals in Guadalajara, Mexico. After 90 minutes of regulation and 30 minutes of overtime, the score was tied, 1-1, but the French would prevail on penalty kicks, 4-3, after Julio Cesar missed and Luis Fernandez did not.

The team that defeated Brazil was widely considered the finest in French history. Its strength was its midfield: Fernandez, Jean Tigana, Alain Giresse and Michel Platini, but for all their flair and experience, the French would prove unable to solve the riddle posed by the West German side in the next round.

Twelve years later, French soccer has a new high-water mark, and Jacquet's team has reached this level for some of the very same reasons that Brazil ended a 24-year drought and won the last World Cup. The French, like the Brazilians, have put new emphasis on defensive rigor at the expense of attacking brilliance.

The French, like the Brazilians, have left home and joined clubs in the world's finest leagues: Italy, Spain, Germany and England.

"By changing teams we changed mentality," said the French midfielder Emmanuel Petit, who plays for Arsenal in England. "Before, everybody knew that the French had some great qualities and wonderful players, but we never quite had the mental strength that this sort of competition demands. By going abroad and playing for the best clubs and under great pressure, I think we have learned what it takes to win."

The only World Cup final Brazil lost was at home in 1950, when a crowd of

200,000 at the Maracana Stadium in Rio de Janeiro got the unexpected and unpleasant opportunity to watch Uruguay's team celebrate.

Zagallo, then in the midst of his military service, was one of the mourners in Maracana that July. But since moving from the stands to the field, he has become a talisman for his nation. He was a fine player on the team that won in 1958 and 1962, the coach in 1970 and an assistant coach in 1994, but if victory can be habit-forming, it is no less emotional.

On Tuesday, after his team defeated the Netherlands on penalty kicks, the 66-year-old Zagallo burst into tears on the sideline. Twenty-four hours later, Jacquet did the same after France defeated Croatia, 2-1.

Both coaches have had to endure plenty of unsolicited criticism from today's version of the Greek chorus: the media. Before this World Cup began, Zagallo even was assigned an assistant against his will: Zico, the former Brazilian playmaker. Whether it helped or not is a national debate, but when Sunday's match begins, the chorus will give way to the actors.

It will be Ronaldinho, Rivaldo and Bebe trying to find a way to find an opening in the world's finest defense. It will be Brazil's Cafu against France's Emmanuel Petit, who plays for Arsenal in England.

He is, after all, a studious fellow, probably well-versed in the words of Voltaire. The philosopher held that:

Hard-Edged Brazil Should Beat Bleus

But Will Final Offer a Glimpse of Grandeur?

By Rob Hughes
International Herald Tribune

PARIS — Never mind the Three Tenors. We get Pavarotti, Carreras and Domingo as regular as clockwork at every World Cup. The old boys harmonize splendidly, but they are as much part of the warm-up act as is the third-place playoff match.

On Sunday, one game matters. First, La Marseillaise, then *le rendez-vous* between France and Brazil at the Stade de France. Jacques Chirac and

VANTAGE POINT

his countrymen should raise the roof with their triumphalist anthem. In front of 1.7 billion people, the largest television audience ever, it will be the proudest moment in French peacetime but I don't believe the pride will last the hour.

This isn't the best Brazil team, nor is it its style the purest samba. But it has a power and a pace, a blend of individualism laced with pragmatism, that should turn the French dreams a paler shade of bleu.

The Brazilians of Mario Zagallo will respect the hard-working French side, be wary of the expert art 80,000 crowd has no refereeing, and put duty before show.

They might even have to come from behind, because the Brazil defense is a weakness. Roberto Carlos may be fun when he charges forward on the flank, but opponents have claimed two goals off his poor defending. France, molded so cautiously by Aimé Jacquet, surely does not have the goal power to outscore the world champions.

Maybe I'm mistaken. Maybe Jacquet, whose stride arood the French base at Clairefontaine has become so brisk and so confident, is planning to shed caution like an unwanted overcoat and to tell his bleus to go out and take on the Brazilians man-for-man, goal-for-goal.

He is, after all, a studious fellow, probably well-versed in the words of Voltaire. The philosopher held that:

"All styles are good,
Except the tiresome sort."

It can be tiresome waiting for the French to strike. In retreat, they are magnifique, none more so than Marcel Desailly and Lilian Thuram. These two defenders, sturdy yet swift, strong of mind and powerful of body, are the acceptable face of France's immigrant team. It has become politically correct to embrace them now that they are carrying France further in soccer than it has ever been before.

Brazil, of course, needs no lesson in integration. Black, white, mulatto, all its sons play soccer and all have provided a rainbow nation composite winning

World Cup and winning friends throughout most of our lifetimes. That tolerance, almost as much as the samba in Brazilian soccer, is the attraction as Brazil pursues a fifth World Cup final victory.

Should France thwart Brazil, I promise not to be mean-spirited. I shall weep with my Brazilian friends, and take Champagne with the French.

Moreover, I would do so with relish if France won by daring to play like cavemen. The host nation started this World Cup with a string of indifference but has awoken as the competition has advanced. This has given the Cup a similar feeling to USA 94. There, the Americans turned out in their millions to acknowledge soccer wasn't just a game for young girls. Here, France has announced that 1.5 million of its 58 million population watched the semifinal when they were women.

When they, and presumably million more, scan the lineup for the playing of *La Marseillaise*, they will see on the faces of players black, white and bleu, a terribly fierce will to win.

Marcel Desailly tackles firmly but usually fairly, he reads the game at peace, he heads well and he moves swiftly.

When Didier Deschamps, the captain, the organizer and the industrial runner of midfield, was asked how France would stop Ronaldo, he responded: "Marcel Desailly."

We shall see. Desailly has been the most impressive suppressor this tournament, but Ronaldo is two goals away from finishing this World Cup where he feels he belongs—as top goalscorer. He has the youth, the speed, the power to brush even Desailly aside, and he has the instinct to play others—Bebeto, Rivaldo, even his own captain Dunga—into situations to score as well.

For Dunga, this is the last hurrah. He plays his 95th and final match for Brazil on Sunday, he breathes fire into his team, and he wants to be the first man to captain a country to consecutive World Cups. Like the *nouveaufrancis*, Dunga doesn't care which way the glory comes so long as the result is his.

I think, despite the quick feet of Zinedine Zidane, that it will be. But I hope above all there is a contest that enriches the sport and surpasses the often stressed, defiant and mediocre fare we have had so far. Let the tenors sing, let the bands play, and let someone breath into Aimé Jacquet's ear the words of General Charles de Gaulle:

"France," he said, "was created either for complete success or exemplary misfortunes. France cannot be France without grandeur."

Rob Hughes is the chief sports writer of The Times of London.

The Tactical Battles: Can Brazil Defend? Can France Score?

By Peter Berlin
International Herald Tribune

PARIS—As they fill in their last team sheets of the World Cup on Sunday, Aimé Jacquet and Mario Zagallo may well feel that they have proved a point.

Even as their teams advanced toward the final, Jacquet, the coach of France, and Zagallo, the coach of Brazil, have come under attack at home for their defensive tactics. Both men have preferred to pack midfield with defensive specialists during the World Cup. They might well feel that reaching the final has proved their point, and Sunday's lineups and tactics are likely to continue the safety-first approach.

Yet, there is more than one way to kick a soccer ball. Brazil and France have the deepest talent pools. Nearly every coach at the World Cup has preferred some variation on the strategy of defending in numbers and trying to score on counterattacks. Perhaps France and Brazil are in the final because they have better players, not a better system.

Even so, both teams have weaknesses. Brazil's is in defense while France's is in the middle of the attack.

Zagallo's decision to screen his sus-

pcept back line with three primarily defensive midfielders makes sense. It is nevertheless a betrayal. As coach of Brazil he is the inheritor of the greatest attacking tradition in world soccer, as the country's demanding fans, from Pele down, have let him know.

Bot, as he has said: "I would rather win playing ugly football than lose playing attractive football. Efficiency in football is based on victories. Everyone wants to win, and I'm no different."

Jacquet's emphasis on defense is more mystifying because his central defense needs less protecting while his strikers need all the help they can get. Yet, the defensive midfielders who stood against Croatia—Christian Karembeu, Didier Deschamps and Emmanuel Petit—seem loath to move into the opposing penalty area.

Against Croatia, the attacking and creative duties fell entirely to three men in an 11-man team, the woodpecker Zinedine Zidane and the cut-off-form duo of Youri Djorkaeff and Stephan Guivarc'h. It was difficult to see where the goals were going to come from.

Even when Karembeu, hurt, was replaced by Thierry Henry—the control-break manager's nightmare because of

the careless way he surrenders possession as he flies at the opposing team—the French struggled to penetrate the Croatian defense.

It took France nearly two hours to score against timid Paraguay in the second round and then the goal came from the center back Laurent Blanc, who had taken it on himself to move center forward.

France could not score against Italy in the quarterfinal, and woe to penalties. Against Croatia on Wednesday, it took the first two goals of the defender Lilian Thuram's international career to win the match.

This is not simply bad luck. The same problem afflicts France in Euro 96. There, France outplayed the Dutch in the quarterfinals, failed to score but woe to penalties. Then it outplayed the Czechs in the semifinals, but again it failed to score, and, following the law of averages, lost the penalty shoot-out.

On Sunday, Blanc will be suspended, and Thuram will either be moved into the center to help cover Ronaldo or will be charged with curbing runs by Roberto Carlos up the wing.

Since Carlos, Brazil's most exciting player who he escapes from his left

back position, will be responsible for curbing Thuram, the two could cancel each other out.

A similar battle will be played out on the other wing, where Bixente Lizarazu, France's left back, and Cafu, Brazil's stolid right back, will struggle for the advantage.

In the center, Blanc's absence will shape the whole tactical battle. Frank Leboeuf, the natural replacement, is an inferior defender.

In Marcel Desailly and Thuram, France has two defenders who can match Ronaldo for pace and power. The problem will be concentrating for the full 90 minutes.

If Ronaldo escapes, Leboeuf will struggle to control him. Undoubtedly Bebe, Ronaldo's so-far largely anonymous strike partner, or Rivaldo, a striker playing in midfield, will also be aiming their runs at the areas policed by Leboeuf.

At the other end, the resistible force will meet the movable object. Despite the efforts of Dunga, Leonardo and Cesar Sampaio in midfield, Brazil has conceded a goal a game. The central defenders—Junior Baiano and Aldair—are erratic. The fullbacks—Cafu and

Roberto Carlos—sometimes seem to lose concentration in defense. Yet it is a battle the Brazilian defense could win.

Jacquet has rotated his central strikers

Guivarc'h, David Trezeguet and Christophe Dugarry—without finding a cutting edge. To force mistakes from the Brazilian defenders, France needs to put them under pressure, and Zidane, dazzling as he has been, cannot do that alone. It will do France no good if the powerful trio of Petit, Deschamps and Karimbenba should play—wins the ball in midfield if the team can make use of it.

Brazil's team has more goals in it. Ronaldo and Bebe are better strikers than anyone France has. Rivaldo, Cafu and Roberto Carlos all contribute more than their share of goals from their positions. Leonardo and Cesar Sampaio, on the rare occasions they get into the penalty area, both know how to score.

This brings the whole question back to Rocaldo, who has shown a taste for the big occasion. Even if he does not score or make space for Bebe and Rivaldo by luring Desailly or Leboeuf out of the center, he can still create chances simply by forcing the defense to concede corners and free kicks.

Scores and Schedule	
QUARTERFINALS	
JULY 4, IN NANTES	
Brazil—Bebe 1, Denmark 2	
Denmark—Jorgensen 2, Laudrup 3	
July 5, in ST. DENIS	
France 0, Italy 0	
France won 4-3 on penalty shoot-out.	
JULY 4, IN MARSEILLE	
Netherlands 2, Argentina 1	
Netherlands—Kluivert 12, Bergkamp 90	
Argentina—Lopez 18	
JULY 5, IN LYON	
Croatia 3, Germany 0	
Croatia—Jorjic 45, Vrsaljko 60, Suker 85	

WORLD CUP

In Playing For Bronze, Croatia May Play Harder

Reuters

PARIS — In a World Cup match that neither team wants to be playing, the Croatian striker Davor Suker at least has something to aim for in the third place playoff against the Netherlands.

Twenty-four hours before the main event, the final between France and Brazil, the bridesmaids of the 1998 tournament must try to forget their anguish at missing out and put on a show at the Parc des Princes.

If comments after the semifinals are any indication, Croatia, in its first World Cup, is looking forward to the game a great deal more than the Dutch, who are still depressed after their penalty shoot-out defeat by Brazil.

Croatia is delighted with its display in France and can claim its own piece of World Cup history via Suker, if he can find the net one more time and become the finals' outright top goal scorer.

Suker will level with Italy's Christian Vieri and Argentina's Gabriel Batistuta, all with five goals. If he scores again, he can realistically be caught only by Brazil's Ronaldo, who put in his fourth on Tuesday against the Dutch.

Suker also has a secondary objective — to catch the eye of top coaches. In France, he has shown signs of his best form but, after a season in which he lost his place in the starting lineup, Real Madrid appears willing to part with him.

Patrick Kluivert, the Dutch striker, provides a chance to prove his worth to potential employers. The out-of-favor AC Milan striker had seen the World Cup as a way of burying a "terrible" last 12 months. Tottenham Hotspur and Arsenal, two big London clubs, are said to be interested in purchasing Kluivert from Milan, but Arsenal has said it was worried about his wage demands.

Kluivert received a red card in the first game, but he has scored in the last two matches.

The Dutch appear to be the stronger side. They beat Argentina, 2-1, after Argentina beat Croatia, 1-0, in the group stage.

But the Dutch appear to have taken their semifinal loss much harder than Croatia did its 2-1 defeat by France, and may be thinking more of going home than winning a march.

The Dutch coach, Gernot Hiddink, is doing his best to inspire his team. He says he believes his players will be fresh on Saturday night and determined to prove they are third best in the world.

"We had a day off," Hiddink said. "We certainly needed a little time. But despite the enormous impact of the game and the fact that we would prefer to be playing on Sunday, we will be taking this game seriously."

Few remember Sweden's 4-0 defeat of Bulgaria four years ago, but Hiddink is hoping his Dutch side will ensure this playoff will not be forgotten in 24 hours. "Being third would be some sort of comfort," he said. "It would also be good if Netherlands-Croatia proved more noteworthy than Brazil-France."

Whichever wins on Saturday will not walk away as champions, but will be the first World Cup participants to depart with bronze medals — a small consolation.

DENNIS THE MENACE



PEANUTS



CALVIN AND HOBBS



WIZARD OF ID



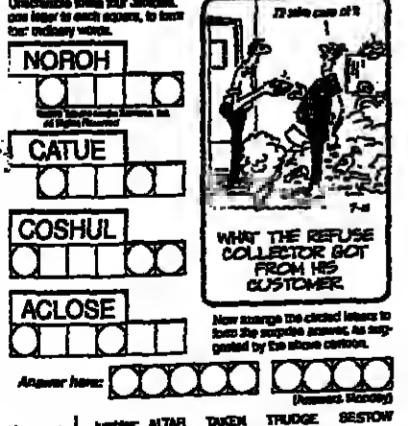
NON SEQUITUR



DOONESBURY



JUMBLE



BEETLE BAILEY



BLONDIE



Ronaldo's Showtime, And World Is Watching

He Seeks to Join Club of Jordan and Pele

By Ian Thomsen
International Herald Tribune

BOSTON — Did you happen to notice how Pete Sampras celebrated his Wimbledon victory last weekend? Staring down at his fist as if it held the world's hottest dice? He learned that little gimmick from Michael Jordan.

Now, Sampras probably didn't stand in front of a mirror and practice emulating the universe's dominant star. But take this on faith: Sampras is a big basketball fan, and in his own mirror he sees himself — quite accurately — as his sport's Michael Jordan. Sampras has

IN AMERICA

won Wimbledon five times. You can count on this victory charging him up enough to reclaim the world No. 1 ranking by season's end for the sixth year in a row, which will allow Sampras to break Jimmy Connors' record.

Thereafter Sampras might well declare, as Jack Nicklaus did while still in his prime, that he is no longer interested in chasing the No. 1 ranking. He will play less often in order to concentrate on winning two more Grand Slams titles, which will give him the biggest singles collection of all time.

The truth about Sampras is that he has more in common with Jordan and Nicklaus than with any of the players he will meet across the net this year. When Jordan, Nicklaus and Sampras watch any kind of tournament, I guarantee you that they are cheering for their peers, the greatest players, to keep winning. The rest of us, the mediocre majority, we want to see upsets and surprises, because we naturally sympathize with the less-talented athletes. But champions have respect only for each other. In their world, Sampras is something like Jordan, who is related distantly to Pele, who was in the same ballpark as Muhammad Ali.

Which brings us to Ronaldo. It is clear now, on the eve of his most important game, that he has been overrated. Over the last year, his name has been repeated as often around the world as those of Pele and Maradona. But he is not of their league.

The proof is immediately within reach: It will only take a bad performance from Ronaldo in the World Cup final on Sunday. If he blunders or is instrumental in the defeat of Brazil, then people will scoff at the idea, the inference, that he is yet the equal of players who have won the world's greatest prize.

If, on the other hand, he scores a couple of goals — comes up with the performance of his life on the one night when the whole world is watching — then he will have been properly positioned by his sponsors who made him out to be a messiah before his ascension.

It was not this complicated in Pele's day, nor Arnold Palmer's, nor in Babe Ruth's. Pele simply appeared, unannounced, as a 17-year-old in the 1958 World Cup in Sweden, the first of three that he won. Even when Nicklaus turned pro with an intimidating reputation in the early 1960s, the only people who were going to be hurt by his potential failure were the members of his family.

Compare that with the pressures greeting Tiger Woods when he turned pro at 21 two years ago. The shoe company and other sponsors were gambling tens of millions of endorsement dollars on his becoming an overwhelming success. It was not his youth or the color of his skin that made his landslide victory at the Masters last year so astonishing — it was that he went out and did exactly what those middle-aged executives had dared him to do.

Everyone agrees, critically, that Ronaldo isn't the all-around creative "genius" that Pele and Maradona were for their countries. And yet, to be fair, Ronaldo is exactly the kind of player the sponsors and the sport need him to be.

He has the sexiest, simplest job in the game: He scores. If he were anymore complicated, if his skills were more subtle, it would be all the more difficult to market him worldwide.

As it is, he has one name; he finishes the sentences of the world's most poetic team, and this has allowed him to become the first truly foreign soccer player (Pele played in New York, don't forget) to be marketed in America.

The simplicity of his assignment on the pitch transcends all the age-old borders about soccer. It also creates a spectacular burden. Last fall, when Jordan visited Paris with the Chicago Bulls, he was asked if he knew who Ronaldo was. "I don't know, sorry," Jordan said.

The truth, as Ronaldo himself might realize as he takes the field this weekend, is that he has not yet joined Michael Jordan's private club — a membership that fame and money cannot buy. More than a billion people will watch him knocking at the entrance, waiting to be allowed in. He approaches the door knowing that everyone will be able to see if he is turned away.

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Where the Soccer Balls Are Made

In a Pakistani Village, a Mother and Child Sew for \$1.50 a Day

By Rob Hughes
International Herald Tribune

From morning to dusk she sits with her mother, solemnly stitching soccer

Tahira Bibi, 10 years old, works from home in Sialkot, a rural Pakistani village near the Indian border where three-quarters of the world's soccer balls are made, often by children too poor and too busy stitching to know how to play or who Ronaldo is or how he makes millions using the balls.

On Sunday, Ronaldo, the most prized soccer player of this era, will be in the eye of a 1.7 billion people watching or night-time street vending.

The hazards of stitching balls are insidious: swollen finger joints, and eye and back strain.

An ILO monitoring plan has helped wean some 2,000 boys and girls into rudimentary education through 90 scattered classrooms. Tahira Bibi went to one of these classrooms once, not two minutes' skipping distance from her house in Munde ke Bairian. It is of no consequence whether she liked it or not.

Two months into her school-life, her father hanged himself from a tree outside their front door. Now Tahira and her mother, Haleema, are the breadwinners, sewing through the day to feed and clothe two infant boys and a younger sister, and to provide fodder for the ox.

Mother and daughter are diligent stitchers, but neither is strong enough to pull together the complete ball. They sew 31 of the 32 panels and hand the ball to the middleman who pays them 10 rupees, one-third of the normal rate.

The maximum they earn in a day is less than \$1.50 between them, though the balls they sew are for the Gold Cup, an official FIFA tournament in which Ronaldo is obliged to perform.

Just about every brand of ball is sewn in the region of Sialkot, in the Punjab. If the child had television, or even radio, she might appreciate how big business has hijacked sport. She might hear that Umbro has just signed a new five-year, \$80 million sponsorship deal with England's Football Association, or that

Nike has exclusive rights to Brazil for \$400 million over 10 years. Adidas pays the French, Germans and eight other World Cup nations.

The amounts dwarf anything the International Labor Office, representing the United Nations, is able to pour into its mission to break the link between Third World poverty, illiteracy and child labor. The total ILO budget for the Sialkot project amounts to \$1 million.

Tahira Bibi is one some 7,000 children stitching balls in this Punjab region, which also puts children to work in more dangerous occupations such as making surgical instruments, smelting or night-time street vending.

Villages like Munde ke Bairian shun such centers, however, because they are not ready to sacrifice their custom of the woman in the home, raising children and taking care of livestock. Poor as they are, the community is self-sufficient, free of latchkey children, drugs and violent crime.

They know there is exploitation. In Britain's high streets, this World Cup season, top-range halls retail for £59.99 (about \$95).

The ILO has taken on a task made insoluble by the culture of Pakistan as much as the profiteering of corporations. Education, some parents say, will not prepare their children for productive work.

Dr. Mian Mohammed Azhar, who runs Sialkot's major hospital orthopedic center, and who has no hand in the soccer industry, said: "The problem is not education — it is poverty. When well-meaning people like the ILO come in, their efforts are hindered at every turn by corruption. This is a country for the army, not the people, and not the children."

Again and again my mind reverts to that house near the Kashmir border, to the girl of stunning solemnity yet dignity. To mother and daughter, the visit was an interruption; time was money.

In the last year, Sialkot lost 20 percent of its exports in the cheaper end of the soccer market to China. The town has no doubt that if Pakistan asks for improved wages, the Chinese will undercut them and squeeze profit margins even tighter.

What hope for Tahira then?



Ronaldo, seeking membership in a club that fame and money cannot buy.

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